



Building Community · Creating Affordable Housing

Procedures and Operating Guidelines

Purpose of the Sobrato Fund:

The Sobrato Affordable Housing Fund (the “Sobrato Fund” or the “Fund”) is a \$10 million loan fund that has been set up as a donor advised fund at Silicon Valley Community Foundation (“SVCF”). The purpose of the Sobrato Fund is to encourage the development of affordable multi-family rental property, homeless/transitional housing, and below market rate single-family/homeownership developments in the Greater Silicon Valley area (Santa Clara County, Southern San Mateo County and Southern Alameda County) through the provision of interest-free loans to fund land acquisition, predevelopment and construction expenses incurred during the feasibility, entitlement and construction process. The Sobrato Fund will provide program funding and set strategic direction; SVCF will hold idle funds and invest them for maximum return; and Opportunity Fund will provide program administration. The Sobrato Fund reserves the right to terminate this program at any time.

Program Administration and Loan Approval:

The loan origination process will be managed by Opportunity Fund on behalf of the Sobrato Fund and SVCF. All applications for project financing will be reviewed, qualified, and underwritten at the discretion of Opportunity Fund staff, with final approvals for acquisition and construction gap loans to be made by the Fund Advisory Committee. The Fund Advisory Committee will be comprised of the members of the Opportunity Fund Affordable Housing Loan Committee and Mr. John A. Sobrato, Sr. (or his designated representative). For predevelopment loans, approval will require the consent of Opportunity Fund’s Executive Director, Mr. John A. Sobrato, Sr. (or his designated representative) and at least two Opportunity Fund Affordable Housing Loan Committee Members.

Program Financing Products:

Three primary debt products will be offered through the Sobrato Fund: 1) real estate-secured loans for land/property acquisition 2) real estate-secured construction gap financing; and 3) unsecured loans to fund predevelopment expenses. The Sobrato Fund will not provide loans to fund general operating expenses, nor will the Sobrato Fund provide permanent financing. Applications for financing will be accepted and reviewed according to general criteria described below.

Qualifying Projects:

Qualifying Projects include the new construction, acquisition, or rehabilitation of affordable multi-family rental property and homeless/transitional housing. Single-family, for-sale developments in which at least half the total units are affordable to homebuyers at or below

120% of the area median income are also Qualifying Projects. Projects which are primarily residential, but which include non-residential components, such as commercial uses, are eligible. To be eligible, projects must be located within Santa Clara, Southern San Mateo or Southern Alameda counties. (Southern San Mateo County is defined as all areas of the County south of Highway 92. Southern Alameda County is defined as within the city limits of Fremont, Newark, Union City and Hayward).

In order to better leverage all available sources of financing, Opportunity Fund has a mandate from the Sobrato Fund to structure land/property acquisition and construction gap financing to include financing from Opportunity Fund's other loan pools.

Program Priorities:

Beyond any other eligibility requirements, funding shall only be provided to projects meeting a minimum of **two** of the following criteria. In the event funding is in short supply, projects that meet several of the criteria listed below will receive priority:

1. Projects with 50 or more units (25 or more for single-family/homeownership developments).
2. Multi-family rental and homeless/transitional projects providing housing for extremely low-income families (35% of area median income or below) or single-family developments with some units affordable to homebuyers at or below 80% of area median income.
3. Projects making use of a non-governmental, non-regulated financing source. Examples include Opportunity Fund's other loan pools, Housing Trust of Santa Clara County, Northern California Community Loan Fund, Low Income Investment Fund, LISC, etc. In addition to debt financing, grants over \$100,000 may be considered to meet this criteria. Deferred developer fees and tax credit equity do not qualify.
4. Projects which create new affordable units or preserve existing affordable units.

In order to maintain flexibility, the Sobrato Fund has not established rigid affordability guidelines to determine project eligibility, except as described above for for-sale developments. Generally, projects which meet the mission of non-profit applicants eligible to apply to the Fund will be considered eligible. The Fund reserves the right, however, to rule projects ineligible on a case-by-case basis if, in the opinion of the Fund Advisory Committee or the Sobrato Fund, such projects do not conform to the mission of the Fund.

Eligible Uses of Funding:

Eligible uses of program funds shall include the following expenses:

Land/Property Acquisition Loans:

- Acquisition (land or improvements)
- Appraisal
- Interim Maintenance/Repairs/Property Stabilization
- Legal Fees/Services
- Option Payments
- Professional Services – Other (e.g., financial consultant/loan packager)
- Real Estate Broker's Commission
- Tax Arrears and/or Amounts to Accrue During Pre-Development
- Title and Recording Fees, and Other Closing Costs

Construction Gap Financing:

- Permit Fees
- Impact Fees
- Relocation
- Legal Fees/Services
- Title and Recording Fees, and Other Closing Costs
- Site Prep/Utilities
- Construction Hard Costs (Mixed Use Projects OK)
- Construction Bond Premiums
- Architectural Design/Supervision
- Survey & Engineering Design/Supervision
- Audit & Accounting
- Professional Services (e.g. Prevailing Wage Consultant, Syndication Consultant)
- Insurance
- Property Taxes
- Bank Inspections
- Construction Financing Fees
- Interest Reserve
- Hard Cost Contingency
- Soft Cost Contingency
- Interest Contingency
- Furnishings
- Lease Up Marketing

Predevelopment Loans:

- Appraisal
- Architectural/Engineering
- Title and Recording Fees, and Other Closing Costs
- Environmental Survey
- Feasibility Study
- Interim Maintenance/Repairs/Property Stabilization
- Legal Fees/Services
- Market Study
- Option Payments
- Permit Fees – Only Application Fees to Govt. Agencies
- Predevelopment Financing Fees
- Professional Services – Other (e.g. financial consultant/loan packager)
- Real Estate Broker's Commission
- Site Preparation/Demolition/Board-up
- Soil Testing
- Survey
- Tax Arrears and/or Amounts to Accrue during Pre-development
- Traffic or Noise Study

The Fund will not provide loans to fund general operating expenses, nor will the Fund provide permanent financing.

Qualifying applicants who expect to incur project-related expenses not shown on this list should contact Opportunity Fund to discuss whether they will be eligible for funding.

Qualifying Applicants:

Only previously approved non-profit developers of Qualifying Project types will be invited to apply for loans from the Sobrato Fund.

The following entities (and their related subsidiaries or development affiliates) are eligible to apply for funding:

- Bridge Housing Corporation
- Charities Housing Development Corporation
- Citizens Housing
- Community Housing Developers
- EPA CAN DO
- Eden Housing, Inc.
- Emergency Housing Consortium
- First Community Housing
- Housing Authority of the County of Santa Clara
- InnVision, the Way Home
- Mid-Peninsula Housing Coalition
- Neighborhood Housing Services of Silicon Valley
- Palo Alto Housing Corporation
- South County Housing Corporation
- Satellite Housing, Inc
- Teachers Academy Foundation

Non-profit organizations interested in being considered as a qualifying applicant should contact Opportunity Fund for initial review. The Sobrato Family Foundation must approve any new applicants.

Program Loan Terms:

General terms are as follows. Exceptions and refinements may be made at the discretion of Opportunity Fund staff, with approval from the Fund Advisory Committee.

Credit Limits:

Total outstanding loans from the Sobrato Fund shall not exceed:

- \$350,000 unsecured for any one project
- \$1,000,000 secured for any one project

For rental properties, Sobrato Fund loan sizes shall also be limited on a per-unit basis, with loan amounts not to exceed the following:

- \$5,000 per unit for unsecured predevelopment loans
- \$30,000 per unit for secured land/property acquisition loans

- \$30,000 per unit for secured construction gap loans

For homeownership properties, Sobrato Fund loan sizes shall also be limited on a per-unit basis, with loan amounts not to exceed the following:

- \$5,000 per unit below 85% AMI for unsecured predevelopment loans
- \$30,000 per unit below 85% AMI for secured land/property acquisition loans
- \$30,000 per unit below 85% AMI for secured construction gap loans

The Sobrato Fund has mandated that borrowers whose projects qualify for acquisition or construction financing from the Sobrato Fund will be required to borrow from both the Sobrato Fund and Opportunity Fund, in equal amounts. Meeting this mandate may mean that the loan request is not eligible for the entire \$30,000 per unit. Joint financing from the Sobrato Fund and Opportunity Fund will be structured as two separate loans, with equal lien priority, when appropriate.

In the event the financing needed is less than double the maximum Sobrato loan amount, (i.e., less than \$2 million) the total loan request will be financed 50% by the Sobrato Fund and 50% by Opportunity Fund's other sources.

In the event the financing needed is more than double the maximum Sobrato loan amount, (i.e., more than \$2 million) the additional financing beyond the 1:1 Opportunity Fund match may come from Opportunity Fund, or another source.

No borrower or related entity may receive more than four Sobrato Fund loans per calendar year. The minimum loan request is \$50,000.

Application Process:

Funds will be made available on a rolling basis according to a simplified application process. Prospective applicants are asked to contact Opportunity Fund by phone or email. Within one week of receiving an inquiry, Opportunity Fund will screen each request over the phone or via email, to make a preliminary determination of eligibility for application. In addition to screening for eligibility, Opportunity Fund staff will inform the applicant of funding availability. If the applicant's request appears to meet the outlines of the program, and if funding is available, Opportunity Fund staff will provide the applicant with a loan application checklist that identifies documents required for loan processing, as well as deadlines that the applicant and Opportunity Fund must meet to assure their mutual goals of funding the project. In general, applicants will be asked to provide the following:

1. Project Description, including: location, description of population to be served;
2. Applicant Description: summary of organizational capability and experience, updated list of board members (only required if Opportunity Fund does not already have this on file);
3. Unit Description, including: type, total number of units, total anticipated cost per unit, and affordability levels;
4. Project Budget, outlining the anticipated overall sources and uses;
5. Applicant's Financial Data: most recent audited financial statements, and current company-prepared statements (only required if Opportunity Fund does not already have this on file);
6. Evidence of Site Control and Title Report; and
7. In the case of applications for land/property acquisition loans, borrower will need to:

- a) demonstrate ability to obtain the additional financing required to complete the transaction; and
 - b) provide copies of an appraisal, environmental studies, and commitments from other financing sources prior to loan closing.
8. In the case of applications for construction gap loans, borrower will need to:
- a) demonstrate ability to obtain the additional construction financing required to complete the transaction; and
 - b) provide copies of an appraisal, environmental studies, and commitments from other financing sources prior to loan closing.

For large acquisition or construction gap loans which require joint financing from another Opportunity Fund loan pool, additional information may be required.

Security:

- “Unsecured” Predevelopment loans: UCC 1 filing
- “Secured” land/property acquisition and construction gap loans: First or second deed of trust secured by the real property.

Opportunity Fund, in issuing loans on behalf of the Sobrato Fund, will generally not subordinate its lien position to government funders.

Loan to Value Ratio:

On real estate-secured loans, the secured loan from the Sobrato Fund, combined with other acquisition or construction financing having greater or equal lien priority, generally may not exceed 90% of appraised value. In some cases, LTV may be allowed to be as high as 100%. The loan to value ratio on the portion of financing provided through one of Opportunity Fund’s other loan pools will be determined on a case by case basis.

Term:

Up to 36 months. If a project receives multiple loans, the total term in which Sobrato funds can be utilized in the project is 36 months. No extensions will be considered.

Repayment:

Generally, full repayment will be required at the close of either a) public sector financing for land purchase or b) construction financing or c) in the case of construction gap financing, at permanent financing. In some cases, the term of a predevelopment or acquisition loan may be allowed to extend until the close of permanent financing. Failure to repay any loan consistent with the terms and conditions of the loan will lead to the refusal of future Sobrato Fund financing for that borrower.

Interest Rate:

No interest will be charged on Sobrato Fund loans.

Loan Fees:

Unsecured Predevelopment Loans

No fees will be charged on unsecured predevelopment loans from the Sobrato Fund.

Secured Land/Property Acquisition and Construction Gap Loans

In the unlikely event that Opportunity Fund is not also providing joint financing through its loan pools, Opportunity Fund will charge applicants for secured land/property acquisition loans and construction gap loans an out of pocket commitment fee equal to 0.5% of the loan amount. This out of pocket commitment fee will be refunded to the loan applicant by Opportunity Fund if the loan closes, but will be retained by Opportunity Fund if the loan does not close. No other fees will be charged on land/property acquisition or construction gap Sobrato loans, nor will the commitment fee be charged on the Sobrato loan in cases where Opportunity Fund is also supplying companion financing through its other loan pools.

All out-of-pocket expenses incurred by Opportunity Fund for items such as appraisals, policies of title insurance, recording/filing fees and the like, shall be paid by the borrower and may be financed with the Fund loan.

The interest rate and loan fees on any companion financing provided by Opportunity Fund from one of its loan pools will be determined based on the pricing policies in effect at the time of application.

Loan Commitment, Funding, and Closing

Opportunity Fund staff will attempt to complete its processing of applications for Unsecured Predevelopment loans, including presentation to the Sobrato Fund Advisory Committee, within 10 business days after receipt of a completed application package, including all necessary supplemental review materials. Generally, Unsecured Predevelopment loans can be closed within two to three weeks after loan approval is obtained. Loans secured by real estate will generally take up to 25 business days to process and approve, with the time from approval to closing varying depending on the characteristics of each transaction. These goals for expedited approval and closing processes may be difficult to meet during times of extremely high loan demand.

Borrowers will be required to certify, when they sign loan documents, that loan funds will be used only for eligible expenses, and will be required to provide copies of invoices demonstrating the appropriate use of funds prior to drawing down any loan proceeds.

Borrowers will be allowed no more than four disbursements on any one loan.

Other

The Sobrato Fund reserves the right to deny eligible loan requests on a case-by-case basis or amend any portion of these guidelines without notice at any time for any reason.

Any loan inquiries or other questions about the program should be referred to Anthony Chang at 408-516-4596 or anthony@opportunityfund.org.

**Sobrato Affordable Housing Fund
Procedures and Operating Guidelines**

Quick Reference Sheet

Types of Loans Offered: Predevelopment, Land/Property Acquisition, and Construction Gap Financing

Qualifying Project Types: Affordable multi-family rental and homeless/transitional projects; single-family/ homeownership developments with at least half of total units affordable to homebuyers at 120% of AMI or below are also eligible

New Construction or Acquisition/Rehab

Geographic Area Served: Santa Clara County, Southern San Mateo County (all areas of the County south of Highway 92) and Southern Alameda County (defined as within the city limits of Fremont, Newark, Union City and Hayward).

Program Priorities:
(must meet two or more)

- 1) Projects with 50 or more units (25 or more for single-family)
- 2) Rental/homeless/transitional projects including ELI units (35% of AMI) or single-family projects including low-income units (80% of AMI)
- 3) Projects making use of a non-governmental, non-regulated financing source. Examples include Opportunity Fund's loan pools, Housing Trust of Santa Clara County, Northern California Community Loan Fund, Low Income Investment Fund, LISC, etc. In addition to debt financing, grants over \$50,000 may be considered to meet this criteria. Deferred developer fees and tax credit equity do not qualify as meeting this priority.
- 4) Projects which create new affordable units or preserve existing affordable units.

Qualifying Applicants: Must be on approved list to apply

Credit Limits:

Predevelopment Loans
\$5,000 per unit, \$350,000 per project

Acquisition Loans
\$30,000 per unit, \$1 million per project

Construction Gap Loans
\$30,000 per unit, \$1 million per project

Note: For qualifying homeownership projects, the above per unit amounts will only apply to those units affordable below 85% AMI.

Loan Terms: 0% interest, maximum 36 months

(Multiple loans to a single project are acceptable under the condition that the time between the first Sobrato loan closing to the maturity date of the final Sobrato loan is no longer than 36 months. No extensions will be considered.)

No loan fees except for 0.5% commitment fee, in some cases, on real estate secured loans

No more than four disbursements on any one loan

Other: Mandate from Sobrato Fund to structure joint land/property acquisition and construction financing with Opportunity Fund's other loan pools.

Maximum four loans per calendar year per borrower