



City of Murrieta

Revolving Loan Fund Guidelines



Table of Contents

I. INTRODUCTION AND BACKGROUND	3
BACKGROUND	3
PROGRAM PURPOSE	3
ABOUT THE GUIDELINES	3
II. THRESHOLD CRITERIA	4
APPLICANT QUALIFICATIONS	4
GEOGRAPHIC ELIGIBILITY	4
PROJECT ELIGIBILITY	5
ELIGIBLE USES	5
EXPENDITURE ELIGIBILITY.....	5
AFFORDABILITY REQUIREMENTS.....	6
III. APPLICATION SUBMITTAL AND REVIEW PROCEDURES	7
DEVELOPMENT APPLICATION	7
APPLICATION REVIEW.....	7
IV. FUNDING PRIORITIES.....	8
V. UNDERWRITING CRITERIA AND GENERAL LOAN TERMS AND CONDITIONS	9
LOAN TERM.....	9
LOAN AMOUNT.....	9
LOAN TO VALUE RATIO	9
INTEREST RATE	9
LOAN REPAYMENT	10
DEVELOPER FEES	10
PREDEVELOPMENT AND DEVELOPMENT BUDGETS.....	11
CASH FLOW AND DEBT COVERAGE RATIO	11
OPERATING EXPENSES	11
RESERVES	11
COLLATERAL/SECURITY	12
LOAN DOCUMENTS	12
FAIR HOUSING AND EQUAL OPPORTUNITY	12
PREVAILING WAGES AND RELOCATION.....	12

I. INTRODUCTION AND BACKGROUND

Background

The City of Murrieta (“City”) secured an award of \$4.1 million in seed funding from the Southern California Association of Governments (“SCAG”) under the REAP 2.0 – Lasting Affordability Program to fund a Revolving Loan Fund program (“RLF”). The purpose of the RLF is to expand long-term affordable housing opportunities within city-limits. The program is designed to accelerate the development and preservation of affordable housing in Murrieta by providing low-interest, short-term loans, early-stage and gap financing. The fund is “revolving” meaning loan repayments are reinvested into future projects, creating a sustainable, ongoing funding source for affordable housing. Additional funds may be added to the RLF as grants are received, and loan repayments are made.

Program Purpose

In February 2026, the City established the RLF to provide financial assistance to preserve and increase affordable housing opportunities. The RLF is primarily designed to provide predevelopment funds fill funding gaps and to provide predevelopment loans (i.e., early-stage loans that make it easier for affordable housing developers to overcome initial hurdles while they determine the details of a project and secure permanent financing). More specifically, loan funds can be used for land acquisition, predevelopment expenses, construction loans, bridge loans, acquisition and rehabilitation expenses, and mini permanent loans. Loans provided by the RLF will typically be structured as short-term, below market loans to be repaid from construction or permanent financing. Once repaid, the loans and their accrued interest will revolve back into the RLF.

Projects funded by repayments of loans that originated from the REAP 2.0 grant also have this requirement. Payments of principal on REAP 2.0 loans will go towards infill development in perpetuity.

About the Guidelines

The purpose of the Revolving Loan Fund Guidelines (“Guidelines”) is to inform potential Applicants of how to apply for funding and describe the criteria and process the City will use to evaluate applications for funding and to provide transparency in the RLF operations. The Guidelines include an overview of threshold criteria, application submittal and review procedures, potential funding priorities, underwriting criteria, and general loan terms and conditions.

Generally, proposed projects must meet five requirements to be considered eligible for funding (“Threshold Criteria”):

- Applicant experience
- Eligible uses
- Geographic requirements

- Expenditure eligibility
- Affordability requirements

Applications that meet the threshold requirements will be evaluated and awarded funding on a first come-first serve basis. The City reserves the right to prioritize select applications depending on one or multiple of the City’s funding priorities or preferences. In following years, the City may adopt a ranking system.

These Guidelines should be interpreted in conjunction with applicable statutes and regulations governing use of RLF funds; in the event of a conflict between these Guidelines and such statutes and regulations, the requirements of those statutes and regulations shall prevail.

II. THRESHOLD CRITERIA

Applicant Qualifications

- Faith-based and other community group
- For-profit affordable housing developers
- Nonprofit affordable housing deve
- Other nonprofit organizations
- Public entities
- Social service agencies

RLF loans may be issued for projects sponsored by nonprofits, for-profit affordable housing developers, public agencies, social service agencies, or community groups or to a partnership between two or more of these entities.

Applicants must demonstrate the capacity to develop the proposed project successfully. The City shall evaluate capacity based on the Applicant’s experience in developing and managing affordable housing or inclusion of development team members with a successful record in developing such housing. In addition, Applicants must demonstrate the financial and legal capacity to undertake the proposed project. Emerging developers or applicants without experience developing affordable housing are encouraged to partner with experienced affordable housing developer. Developers must have prior experience owning and/or operating a Project located within areas served by the Southern California Association of Governments (“SCAG”) or San Diego Association of Governments (“SANDAG”).

Geographic Eligibility

Projects must be located within infill areas of Murrieta. Infill development is defined as an area that consists of unused or underutilized lands, is within existing development patterns, and is accessible to destinations and services by transit, walking, or bicycling. Projects funded by repayments of loans that originated from the REAP 2.0 grant also have this requirement. Payments of principal on REAP 2.0 loans will go towards infill development in perpetuity. For any loans to affordable components of mixed-use

developments, the development must allocate at least 65% of its floor area to residential use.

Project Eligibility

Housing types may include but are not limited to the following:

- New construction of affordable rental housing
- Conversion of non-residential buildings to affordable rental housing
- Acquisition and/or rehabilitation of existing affordable rental housing
- New construction of ownership housing, including condominiums, for first-time homebuyers
- An affordable housing component of a mixed-use development

Housing tenure may be rental or ownership.

Eligible Uses

RLF funds may be used for the following eligible purposes:

- Site acquisition and preparation
- Predevelopment expenses, including but not limited to:
 - Carrying charges and financing fees
 - Preliminary title reports
 - Architect design and engineering/soils work
 - Environmental analysis and reports
 - Legal and financial consultants
 - Planning and permitting fees
 - Appraisal and market study costs
 - Applicant and consultant fees to secure additional project financing
 - Short-term construction loans or down payment assistance for first time homebuyers for ownership housing when RLF loan repayment can be reasonably expected within 5 years, following home sales and issuance of income restricted

Funds may not be used for developer fees, agency operating expenses, support, or social services.

Expenditure Eligibility

The RLF will be used to issue short-term loans that shall be due and payable upon the earlier of conversion to construction/permanent financing or loan maturity, not to exceed 60 months. Loans may

be extended by the City for up to two 6-month extension options or longer if approved by the City. When necessary, to meet the requirements for other project funding or to enhance project feasibility, the City may approve a different loan term. Requests for exceptions to loan terms must be identified at the time of application.

Affordability Requirements

Eligible rental housing projects shall be limited to those that serve households with incomes up to 80% of Area Median Income (“AMI”), adjusted for household size. Income limits are set and periodically revised by the U.S. Department of Housing and Urban Development (“HUD”) Eligible ownership housing projects shall be limited to those that serve households with incomes up to 120% of AMI, adjusted for household size.

Eligible projects are not required to have all project details determined at the time of application, but Applicants should plan to initiate the development of a site or the redevelopment of a property within 1 year of receiving RLF funding and should plan for the following long-term affordability provisions:

- Rental housing shall be income and rent restricted for not less than 55-years.
- Ownership housing shall comply with California Health and Safety Code, Section 50843.5(d)(3).

III. APPLICATION SUBMITTAL AND REVIEW PROCEDURES

The City will accept and approve RLF applications on a rolling basis until funding is exhausted. The City is seeking additional private and government capital for the RLF and will maintain a pipeline of eligible projects. The City may provide time frames for future rounds of applications, subject to available funding. Applicants are encouraged to visit the City's website for the latest information regarding available funds. A one-time non-refundable application fee of \$500 and \$750 underwriting fee apply to all applications.

Development Application

Interested Applicants must submit a completed full application with supporting documents out outlined in the Application.

The City will conduct an initial review of the Application's threshold criteria. Applications deemed to have met initial threshold requirements shall be further analyzed and underwritten.

Application Review

In reviewing applications, the City shall consider the following factors, including but not limited to:

1. Threshold Criteria
2. Project budgets and financing
3. Site control
4. Development approvals
5. Environmental assessment
6. Sources of repayment
7. Loan collateral
8. Appraisals or indicators of value
9. Letters of support

The City recognizes that some of these factors may not be fully known at the time of the application, may consider these factors at their level of certainty, and will coordinate with the Applicant to achieve greater clarification as needed.

For more detailed information regarding evaluation criteria, please refer to the Underwriting Criteria and General Loan Terms and Conditions section of these Guidelines.

IV. FUNDING PRIORITIES

Applications that meet the Threshold Criteria will be evaluated and awarded funding on a first come, first served basis until current funding is exhausted. The City reserves the right to prioritize select applications depending on one or multiple of the City and Program funding priorities. In future rounds, the City may adopt ranking criteria based on these funding priorities, the Underwriting Criteria, or other factors.

City priorities include but are not limited to:

- Proposed development is located on City-owned land
- Proposed development is located on a site located in City Housing Element
- Proposed development creates or constructs new affordable units: new units may include new construction developments, rehabilitation of existing unrestricted housing that will be converted to affordable, or conversion of existing facilities to affordable housing units
- Development has site control and has begun entitlement process or has received entitlements

V. UNDERWRITING CRITERIA AND GENERAL LOAN TERMS AND CONDITIONS

The general loan terms for RLF loans are outlined below. The City reserves the right to amend these terms on a project-by-project basis.

Loan Term

The RLF will be used to issue short-term loans that shall be due and payable upon the earlier of conversion to permanent financing or loan maturity after no more than 60 months. Loans may be extended for two 6-month extension options or longer if approved by the City. When necessary to meet the requirements for other project funding or to enhance project feasibility, the City may approve a different loan term.

Loan Amount

The maximum loan amount shall initially be set at \$1,000,000 per project and shall not exceed the following:

Table 4. Maximum Per-Unit Loan Amounts

	New Construction
Studio and 1-bedroom	\$20,000
2-bedroom	\$25,000
3-bedroom	\$ 30,000
4-bedroom	\$35,000

Loan to Value Ratio

If requesting acquisition financing, the City will issue RLF loans of up to 100% of the appraised property value, plus predevelopment and/or site improvements costs. All budgeted expenses are subject to review and approval by the City. The maximum allowable purchase price shall not exceed the appraised value as evidenced by an appraisal prepared by a California State Certified General Appraiser and approved by the City that is dated no more than 6 months prior to the date of the application. The appraisal may not determine property value based solely on sales of properties financed by public agencies.

Interest Rate

The interest rate for for-sale projects shall be established by the Federal Home Loan Mortgage

Corporation for the average conventional commitment of a fixed-rate, 30-year mortgage, compounded annually.

The interest rate for affordable multi-family rental projects shall be a fixed 5% simple.

Loan Repayment

A take-out source must be identified for predevelopment loans. Under some circumstances, the City may rely on a Loan Guaranty from an Applicant that can demonstrate significant financial strength in lieu of an identified take-out source.

Loan payments shall be made as follows:

- A. Loans will have monthly payments of interest only, unless otherwise approved by the City. Payment of principal is deferred until conversion to construction/permanent financing or maturity. If a loan interest payment is more than 10 days late, Borrowers must pay a 5% penalty of the loan interest payment.
- B. The Borrower may elect to prepay the loan or any part thereof prior to the end of the term. However, the Memorandum of Agreement or recorded Covenants shall remain in full force and effect for its term regardless of any prepayment.
- C. If the Borrower violates the terms of the Memorandum of Agreement or recorded the loan in default, the entire amount of unpaid principal plus accrued interest at the rate established at the time of closing shall be due.

Developer Fees

The total budgeted developer fee shall not exceed the following:

- A. For projects not utilizing low-income housing tax credits, the developer fee shall not exceed the amount calculated in accordance with subsections (1), (2), or (3) below. The per-unit amounts will be adjusted in thousand dollar increments in accordance with changes in the Consumer Price Index ("CPI") when, following the year 2016, the CPI has indicated the next full thousand-dollar increment has been reached.
 1. For new construction projects and projects where the contract for the rehabilitation work equals or exceeds \$35,000 per unit:
 - a) For the first 30 units, \$26,000 per unit.
 - b) For each unit in excess of 30, \$10,500 per unit.
 2. For other projects involving acquisition and rehabilitation where the contract amount for the rehabilitation work, excluding contractor profit and overhead, equals or exceeds \$10,500 per unit and is less than \$35,000 per unit:
 - a) For the first 30 units, \$12,000 per unit.
 - b) For each unit in excess of 30, \$5,500 per unit.
 3. For all other projects, \$2,000 per unit.

- B. For projects 4% or 9% tax credits, the developer fee shall not exceed the amount that may be included in project costs pursuant to California Code of Regulations, Title 4, Section 10327. RLF dollars may not be used for developer fees.

The City may use different limits on Developer Fees, to the extent it deems the different limits necessary to attract sufficient applications to utilize available funding.

Predevelopment and Development Budgets

The City will evaluate the predevelopment and development budgets in comparison to construction cost estimates; costs for other, similar projects; costs for other projects with adjustments for differences; industry resources of building cost data; and other resources available to the City.

Cash Flow and Debt Coverage Ratio

The Applicant shall submit a 55-year cash flow. The cash flow should show a Year 1 debt service coverage ratio of 1.15 or higher and positive net cash flow through at least Year 15.

Operating Expenses

Total operating expenses shall not be less than those specifically listed in CCR, Title 4, Section 10327, as minimum operating expenses unless the Applicant can provide sufficient evidence that lower expenses will be sufficient. Projects that will use tax credits must satisfy the operating cost minimums published by the California Tax Credit Allocation Committee (“TCAC”) for Riverside County and the applicable project type and year. The City may require higher operating expenses where warranted by the experience of comparable properties and particular building characteristics, such as the nature of the tenant population or the level of rehabilitation. The City may approve total operating expenses that are less than those specified in Section 10327 if the project has an extraordinary design feature that results in a quantifiable operating cost savings or if the City determines that lesser total operating expenses are sufficient for the effective operation of the project.

Reserves

The development budget should include the following reserves, to be funded in the permanent financing phase and/or from operating income.

- A. Replacement Reserves – An account to fund new building materials and systems as older materials and systems wear out.
1. For projects utilizing tax credits, the total replacement reserves shall not be less than those specifically listed in CCR, Title 4, Section 10327 (7)(A), as amended.
 2. For projects not utilizing tax credits, the minimum reserve shall be:
 - No less than \$300 per unit per year for rehabilitation projects
 - Not less than \$250 per unit per year for new construction or senior projects
- B. Operating Reserves – An account to cover a deficit in the property’s operation.

1. For projects utilizing tax credits, the total operating reserve shall not be less than those specifically listed in CCR, Title 4, Section 10327(7)(B), as amended.
2. For projects not utilizing tax credits, the minimum reserve shall be:
 - Equivalent to three months of estimated operating expenses and debt services under stabilized occupancy.

Collateral/Security

The loan shall be secured by a Deed of Trust, secured by real property or other security as approved by the City. The City may consider a Loan Guaranty from an entity that can demonstrate significant financial strength. The City may consider subordinating its lien position to other lenders.

Loan Documents

Prior to receiving funding, Applicants must execute the following “Loan Documents,” except the City may choose to exclude one or more of the documents:

- Loan Agreement
- Promissory Note
- Deed of Trust
- Assignment of Contracts and Plans
- Memorandum of Agreement
- Option and Purchase Agreement
- Loan Guaranty, if applicable
- Other documents as determined by the City

Fair Housing and Equal Opportunity

All projects receiving RLF funding must comply with applicable State and Federal fair housing and equal opportunity laws.

Prevailing Wages and Relocation

Projects funded through the RLF are public works within the meaning of Labor Code Section 1720 and it will be the applicant, developer’s, and owner’s responsibility to ensure compliance with California’s Prevailing Wage Laws, Labor Code Section 1770 et seq., where applicable.

Applicants shall comply with all regulations of applicable local, state, and federal relocation law.

Table 5 summarizes the underwriting standards and loan terms, as detailed above.

Table 5: Underwriting Standards

Murrieta Revolving Loan Fund Underwriting Standards	
Loan Term	60 months, with up to two 6-month extension options.
Loan Amount	The maximum loan amount is \$1,000,000 per project, with the following per- unit limits: New Construction: Studio & 1-bedroom: \$20,000; 2-bedroom: \$25,000; 3-bedroom: \$30,000; 4-bedroom: \$35,000
Loan to Value Ratio	Up to 100% of appraised property value, plus predevelopment and/or site improvements costs. Appraisal is required within the last 6 months.
Interest Rate	Either: <ul style="list-style-type: none"> • For-Sale Projects: The rate established by the Federal Home Loan Mortgage Corporation for the average conventional commitment of a fixed-rate, 30-year mortgage, compounded annually • Multi-family affordable rental: 5% simple interest
Loan Repayment	A take-out source must be identified. Under some circumstances, the City may rely on a Loan Guaranty from an Applicant that can demonstrate significant financial strength in lieu of an identified take-out source. Interest only, paid monthly. Principal will be due at the earlier of conversion to construction/permanent financing or the maturity date. Borrowers must pay a 5% penalty of the loan interest payment if an interest payment is more than 10 days late. If there is not sufficient cash flow to make regular payments, an interest reserve may be considered.
Developer Fees	The total budgeted developer fee shall be limited based on the project type, scope of work, and/or whether the project will pursue tax credit financing.
Predevelopment and Development Budgets	The City will evaluate the predevelopment and development budgets in comparison to construction cost estimates; costs for other, similar projects; costs for other projects with adjustments for scope differences; industry resources for building cost data; and other resources available to the City.
Cash Flow and Debt Coverage Ratio	The Applicant shall submit a 55 - year cash flow. The cash flow should show a Year 1 debt service coverage ratio of 1.1 or higher and positive net cash flow through at least Year 15.
Operating Expenses	Total operating expenses shall not be less than those specifically listed in California Code of Regulations, Title 4, Section 10327, as minimum operating expenses. The City may require higher operating expenses or approve lower operating expenses under certain circumstances.

Murrieta Revolving Loan Fund Underwriting Standards	
Reserves	The development budget should include replacement reserves and operating reserves.
Collateral/Security	Loans will be secured by a Deed of Trust, secured by real property or other security as approved by the City. The City may consider a Loan Guaranty.
Fees	One time application fee of \$500, underwriting fee of \$500, and a loan origination fee of 1%.
Loan Documents	All loans will require a Loan Agreement, Promissory Note, Deed of Trust, Assignment of Contracts and Plans, Memorandum of Agreement, and/or other documents as determined by the City.
Fair Housing and Equal Housing Opportunity	All projects receiving RLF funding must comply with applicable State and Federal fair housing and equal housing opportunity laws.
Prevailing Wages and Relocation	It is the Applicants responsibility to determine prevailing wage requirements under the REAP 2.0 funding and to follow all applicable local, state, and federal relocation laws, as applicable.
REAP 2.0 Funded Project Requirements	<p>For projects funded under REAP 2.0, projects must be located within an infill area and meet the REAP 2.0 Infill Definition. For projects funded under REAP 2.0 that have a mixed-use component, REAP 2.0 requires that mixed-use affordable housing developments allocate at least 65% of their total floor area to residential use.</p> <p>Projects funded by repayments of loans that originated from the REAP 2.0 grant also have this requirement. Payments of principal on REAP 2.0 loans will go towards infill development in perpetuity</p>