

Tab 21 Construction Financing and/or Permanent Financing Letters of Intent

A current letter of intent for each source of construction and/or permanent financing must be provided with the Application. This includes financing required for both commercial and residential areas.

Each letter of intent must:

- Be dated within 60 days of the Application submission deadline;
- Include a statement that the lender has reviewed the Application, including the proposed rents and operating expenses used in preparing the operating budget⁽¹⁾;
- State that upon their review, the loan amount will be “X” amount of dollars;
- Include loan terms and conditions;
- Provide a breakdown of any and all financing fees (financing fees will not be recognized in total project cost at application if not stipulated in the letter of intent);
- Confirm that the permanent loan term is a minimum of 15 years for a Tax Credit-only development. If PennHOMES funds are included in the financing plan, the term of the permanent loan must be 30 years and must be fixed rate financing. If the permanent loan is with an outside lending institution, the terms and conditions of the loan must be better than the Agency’s Taxable Bond loan terms and conditions.
- Confirm that the Debt Service Coverage Ratio is between 1.15 and 1.25 in the initial stabilized operating period (unless higher to meet the requirement below);
- Confirm that the Debt Service Coverage Ratio is not less than 1.00 in years one through and including fifteen and no more than 1.20 in year fifteen.
- For all sources of soft financing, confirm that the funds have been set aside for the subject development and, if applicable, include an explanation as to why the interest rate is projected at the Applicable Federal Rate.

The Agency will not consider a “pending” Application for financing for an award of points under Ability to Proceed.

The construction period interest expense of a loan that is repaid by or converted to a permanent loan should be reflected as construction loan interest in the Development Budget.

The construction period interest expense of a loan that is repaid by Tax Credit equity should be reflected as bridge loan interest in the Development Budget.

The Agency limits to 50% the amount of the Developer’s Fee that the general partner(s) may reinvest. Applications requiring a greater initial reinvestment percentage of the Developer Fee may be deemed to be financially infeasible.

Developers providing permanent financing to the development must include current audited financial statements which support the developer’s ability to provide such a loan to the development. Developers providing such a loan will also be required to address the “At Risk Rules” with regard to related-party financing. If the source of the developer loan is a grant or loan of local, state or federal funds, including Neighborhood Assistance Program (“NAP”) tax credits, audited financial statements will not be required as long as there is evidence in the form of a letter or other written document that the funds are being provided to the development.

All Applicants are expected to be thoroughly familiar with the "At Risk Rules" of Section 42(k) of the Code. If the applicant has indicated a type of financing such as related party financing, seller

financing, or a nonprofit loan that might come under the At Risk Rules provision, the applicant must submit a certification as to why this type of financing is not in violation of the At Risk Rules. The certification must be provided by the owner, acknowledged by the investor, and must provide specific reference to the appropriate section of the Code or relevant accounting procedures which permits this type of financing to remain in basis.

For all deferred loans having an interest rate at or above the Applicable Federal Rate, the lender and Tax Credit syndicator or investor(s) must certify that each has reviewed the development's ability to repay the loan plus accrued interest at maturity. This determination must be made using an income capitalization approach to value for the year of maturity.

Resources included as a source of financing in the Application may not be reduced, substituted or adjusted in the future by another funding source in the financing plan unless approved by the Agency. Failure to report funding changes at any time during the Tax Credit Program period may constitute a violation of the Agency's land use restriction agreement.

Items to be included in this tab:

- Financing letters of intent
- Certification of "At Risk Rules" (if applicable)
- Supporting documentation for deferred loans at AFR (if applicable)
- Developer's audited financial statements (if applicable)
- A list of all Program and Regulatory Agency approvals that will be necessary to achieve the goals of the Application. Regulatory Agencies may include, but are not limited to the Department of Housing and Urban Development, USDA Rural Development, State government and local government. The list must include each approval necessary, the regulatory agency having jurisdiction to make the decision, contact information for each agency, the status and timeline and any additional monetary or security collateral required to receive each necessary approval. Necessary approvals may include, but are not limited to:
 - a. HUD Mixed Finance Approvals (Submission of a time line, rental term sheet, and approvals to date)
 - b. Master Development Agreement (The Agency will review the sources of funding and costs to be shared by all phases of the development. Additional information may be requested to review the source and use allocation.)
 - c. Rural Development Approvals (submission of a time line and approvals to date)

(1) If the letter of intent does not include the statement that it has reviewed the proposed rents and operating expenses, the Agency may underwrite the application utilizing the current rents and operating expense levels obtained from its data base, which may result in financial feasibility issues. If a rent increase is pending with HUD or RD and the letter of intent doesn't include the required language, the current rents may be utilized during underwriting.