TAXABLE AND 501(C)(3) TAX EXEMPT BOND FINANCING

The Agency provides financing to developers building or rehabilitating rental units designed for lower income occupancy. Competitive financing rates are made possible through the sale of Agency tax exempt and taxable bonds. Mortgages provided through Agency bond proceeds must be secured by a priority lien position. Bond financing may be coupled with PennHOMES funds to help make the development financially feasible.

Program Highlights

Minimum Number of Units

All Applications must consist of 15 or more units. The Agency may consider developments with less than 15 units if all Agency guidelines and financing requirements are met.

Maximum Income of Tenants

When using either tax exempt financing or Tax Credits, one of the following minimum set-aside requirements must be implemented:

- 20% of the units must be rented to persons with incomes at or below 50% of the area median income, adjusted by family size; or
- 40% of the units must be rented to persons with incomes at or below 60% of the area median income, adjusted by family size.

When using taxable financing not involving Tax Credits, at least 20% of the units must be rented to households with incomes at or below 80% of the area median income.

Minimum Loan Amount

The suggested minimum loan amount for taxable financing is $100,000; the minimum loan amount for tax exempt financing is $2,000,000, unless there are a sufficient number of developments requesting tax exempt financing that may be pooled together.

Interest Rates

Interest rates will vary depending on market conditions. Please contact the Agency's Development Division for projected mortgage interest rates.

Affordability Period

All developments must remain rental housing meeting the low and moderate income tenancy requirement for the longer of the term of the mortgage or 30 years.

Term of Loan and Amortization

The maximum loan term will be 30 years for taxable and tax exempt bond financing.

Return on Equity

Distribution to owners from excess revenue of a development will be limited to an annual return of 15% of the owner's equity in the development. The right to receive the return on equity is cumulative. The equity in the development shall be determined at final closing based on the cost certification. The stated owner's equity in the development may be adjusted annually to reflect increases in the Consumer Price Index.

Debt Service Coverage Ratio

The debt service coverage ratio must equal or exceed 115% in the first operating period and not drop below 100% through and including year 15. There may be additional requirements for 30-year bonds. Certain Rural Development projects or developments utilizing a HUD MAP insured loan may have a debt service coverage ratio as low as 110% in the first operating period but must maintain a ratio of 100% through year 15.

Loan to Value Ratio/Equity Requirement

Loan underwriting and first mortgage credit enhancement requirements normally determine maximum loan to value ratio for Agency developments. Usually, the ratio does not exceed 80% of replacement value and/or appraised value. In no event may the ratio exceed 90% of total replacement cost for for-profit developers or 100% of total replacement cost for nonprofit developers. The Agency may require an "as-built" appraisal to determine market value.

The combined total of taxable or tax exempt financing and PennHOMES funding cannot exceed the 90% and 100% amounts referenced above.

Outside Funding Sources

Applicants should seek other sources of public and private support, including donation of publicly held land, to enhance the financial viability of the development.

Credit Enhancement/Mortgage Insurance

Credit enhancement/mortgage insurance is required for all developments requesting Agency taxable or tax exempt bond financing.

The Agency has established a Mortgage Insurance Program designed to protect the Agency and its investors in the event of a fiscal or covenant default on an Agency financed development through direct insurance support on a property-specific basis.

Bond rating organizations have developed criteria for rating debt obligations secured by multifamily mortgages on a property specific basis. Only those properties classified as "prime quality properties" will qualify for a rating without other sources of credit enhancement.

If the Agency's Mortgage Insurance Program is requested, please indicate by checking the appropriate box on page one of the Application. The Agency's Mortgage Insurance Program is either self-insured or provided through other financial intermediaries which may include the HUD Risk Sharing Program.