Tab 21 Permanent Financing Letters of Intent

A current letter of intent for each source of permanent financing, except for PHFA provided permanent financing or construction to permanent financing, must be provided with the Application. This includes financing required for both commercial and residential areas. If a project is anticipating construction and/or permanent financing from PHFA then this request needs to be reflected in the application submission.

For 4% LIHTC Applications requesting and Agency first mortgage, the Applicant must request to the Agency at the Intent to Submit stage. A preliminary commitment from PHFA's Finance Director must be submitted with the full application submission.

Any project that includes Agency funding, the Agency will not accept terms for non-forgivable subordinate debt that are shorter than our loans.

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 at least 40 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 at least 1.20 in the initial stabilized operating period;
- Confirm that the Debt Service Coverage Ratio is not less than 1.05 in years one through and including fifteen and no more than 1.20 in year 15 (unless higher to meet initial year requirement above). Preservation projects that have operating subsidy and are projecting high cash flow in future years may be required to underwrite using a lower Debt Service Coverage Ratio.
- For all sources of soft financing, the source of funds must be clearly identified (i.e.HOME, CDBG, Act 137 etc.) and confirmation that the funds have been set aside for the subject development. If applicable, include an explanation as to why the interest rate is projected at the Applicable Federal Rate.

The Agency limits to 50% the amount of the Developer's Fee that the general partner(s) may reinvest, including uncommitted funds. Applications requiring a greater initial reinvestment percentage of the Developer Fee may be deemed to be financially infeasible and may not be processed.

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 an event of noncompliance and adversely impact future applications.

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.