MHDC Guidelines for Preliminary Financing Commitments

MHDC requires a preliminary commitment letter at the time of application for all non-MHDC sources of financing. Updated commitment letters are required at the time of firm submission for approved applications.

Debt/Grant Commitments

Any debt or grant funds that will be a part of the development’s financing must have a commitment letter or a letter stating that an application has been received for the source in question. Commitment letters must indicate:

1. Loan or grant amount.
2. Loan term and amortization. The minimum acceptable term for permanent loans is eighteen years.
3. Interest rate. Permanent loans must have a fixed interest rate throughout the term of the loan.
4. Fees associated with the loan or grant.
5. Reserve requirements.
7. Relevant requirements that may affect other financing sources or the operations of the property.
8. Contact information for the person providing the commitment and to whom MHDC’s questions can be directed.

Commitment letters are required for both construction and permanent sources

If a loan is going to be assumed or an existing loan is to be restructured, you must provide a copy of the current note and a letter from the lender that states that the loan can be assumed, and also provides details of the terms and conditions of any assumed or restructured note. This is of particular applicability to HUD- and RD-financed preservation development proposals.

If a loan/grant has been applied for or will be applied for from a competitive source (e.g. city funds, Federal Home Loan Bank), a letter is required that either acknowledges the funds have been applied for, or verifies that a funding round is coming up and the applicant is eligible to apply. The letter should indicate the amount of funds requested and the timing for funding decisions. Applicants should be prepared to provide alternative plans if they are not successful in any non-MHDC competitive funding cycle.

An updated commitment letter must be provided with the firm submission and should update the information from the commitment letter provided at application stage. Debt, except for assumed debt, must have a commitment letter at the time of firm submission. Assumed debt should include a letter from the lender indicating what needs to be done for the assumption to be finalized and when that is expected to occur.
Equity Commitments

If all the various types of tax credit equity are to be provided by the same syndicator, one commitment letter meeting all the requirements below will be sufficient.

Any development with tax credit equity listed as a source must include a preliminary commitment letter or letter of interest. The letter must indicate:

1. Ownership percentage and amount of annual credits to be purchased by the equity provider.

2. Price per dollar of annual credit purchased. Investors taking more than a de minimis share of ownership interest must provide a capital contribution in exchange for their share of federal tax credits.

3. Total amount of capital contributions.

4. Amount of equity paid in during the construction period.

5. Any fees, such as an asset management fee, that must be paid over the compliance period.

6. Any reserve requirements.

7. For historic rehabilitation tax credit equity, the eligible basis calculated for both the state and federal historic credits.

8. Contact information for the person providing the commitment and to whom MHDC’s questions can be directed.

At firm submission, commitments for tax credit equity must include an update of all the information provided with the application and also include the following information:

1. Capital contribution timing and amounts, including the dates or milestones when equity will be contributed to the partnership. All developments must meet the MHDC required contribution of 10% of federal and state Low Income Housing Tax Credit equity invested at construction closing with another 10% invested at 50% construction completion.

2. Description of development costs attributed to limited partner, including syndication costs.

If a bridge loan is to be provided by the equity investor, the terms and conditions of that loan can be included with the equity commitment and do not need to be presented in a separate commitment letter.

Timing Requirements

All equity commitments must be signed by the provider of the commitment and dated within 45 days of the application deadline or firm submission date.