MHDC Guidelines for Preliminary Financing Commitments

All non-MHDC sources of debt and equity must be evidenced by a commitment/Letter of Intent (LOI) or acceptable documentation in lieu of a commitment. All financing commitments, including tax credit equity, must be included with the application and reflected within the application. 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 of Intent (LOI). Commitment letters/LOIs must indicate:

1. Loan or grant amount. If using tax-exempt bonds, specify if bonds are "draw-down" bonds.
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.
6. Lien position of the loan.
7. Relevant requirements that may affect other financing sources or the operations of the property.
8. Contact information for the person providing the commitment/LOI and to whom MHDC's questions can be directed.

If the application involves rehabilitation with existing tenants, include an "income from operations during construction" calculation on Form 2013A, and also in your development financing sources.

If the application involves rehabilitation, identify whether the seller or buyer receives the replacement reserve balance at closing.

All commitment/LOI letters must include the contact information for the person writing the commitment. MHDC may contact the author of a commitment/LOI to discuss the development and their commitment.

Commitments/Letters of Intent (LOI) for MHDC Fund Balance Participation Loans:

Applicants requesting a MHDC Fund Balance participation loan should include a letter of intent from their preferred lending institution(s) which states:

a. That the lender is willing to take a co-first lien position with MHDC;
b. The amount that the lender is willing to loan; and
c. An acknowledgement by the lender that any participation loan is subject to the terms and conditions of a Participation Loan Agreement with MHDC.

Otherwise, MHDC reserves the right to determine appropriate participation loan financing for the project.
If a proposal includes multiple non-MHDC commitments/LOIs, the applicant must specify which commitment should take precedence over the other(s).

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 provide a narrative of alternative plans to fill the funding gap if they are not successful in any non-MHDC competitive funding cycle.

Equity Commitments:

There must be equity commitments/LOI for the following types of funds, where applicable:

1. Federal LIHTC Equity
2. State LIHTC Equity
3. Federal Historic Rehab Credit Equity
4. State Historic Rehab Credit Equity

If one syndicator/investor is purchasing all housing and historic tax credits, one commitment meeting the requirements for each type of credit is acceptable. If the syndicator/investor is also providing a bridge loan, that commitment can be included in the equity commitment if it contains all of the terms of the bridge loan.

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

I. The ownership percentage and amount of annual credits to be purchased by the equity provider.
II. The price per dollar of annual credit purchased. Investors taking more than a de minimis share (i.e., 1percent or greater) of ownership interest must provide a capital contribution (at the same price as the primary investor) in exchange for their share of Federal LIHTC.
III. The total amount of capital contributions.
IV. The amount of equity paid during the construction period.
V. Any fees, such as an asset management fee, that must be paid during the compliance period.
VI. Any reserve requirements.
VII. For historic rehabilitation tax credit equity, the eligible basis calculated for both the state and federal historic tax credits.
VIII. For developments committing to special needs housing units, evidence the investor(s) is aware of the special needs housing commitment being proposed.
IX. 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:

A. 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 minimum contribution of 10 percent of federal and state Low Income Housing Tax Credit equity invested at construction closing with another 10 percent invested at 50 percent construction completion.

B. 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.

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.

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.

Construction Loans:

If the loan is an MHDC HOME Funds loan in second position during construction, the term will be equal to that of the first position construction loan. If the MHDC HOME Funds loan is the only construction loan, the term will be determined at Firm Commitment but will generally not exceed 18 months.

If the loan is an MHDC participation construction loan, the loan term will be 18 months. An application may request a participation construction loan term of 24 months; however, a 24-month term will increase the construction period interest. Such a request must be made in writing and is most appropriately made in the development's narrative.

MHDC will require recourse on the entire construction loan during the construction period. Exceptions to this recourse may be granted for non-profit and CHDO applicants.
If using tax-exempt bonds, the applicant must specify if they are "draw-down" bonds.

Permanent Loans:

MHDC hard permanent loans will generally have a 20-year term, with the exception of loans for single-family homeownership developments, which will have an 18-year term. Soft loans from MHDC will generally have the same term as the hard first mortgage; if there is no hard first mortgage, it will generally have a 30-year term.

Non-MHDC debt will be underwritten with the term described in the preliminary commitment letter.
MHDC will not accept any permanent loan term less than 18 years.

Amortization:

Hard permanent loans from MHDC will amortize over 30 years for all developments except single-family homeownership developments, which will amortize over 25 years. Soft loans will not amortize, but will require an annual payment equal to 50 percent of available cash-flow unless MHDC determines there is not sufficient cash-flow available. The definition of "cash flow" and the priority of payment will be set forth in the Firm Commitment. Non-MHDC loans will be underwritten with the amortization described in the lender's preliminary commitment letter.