CONNECTICUT HOUSING FINANCE AUTHORITY

CHFA Construction to Permanent Financing Frequently Asked Questions

Two-Note Structure

1. **How is CHFA's construction to permanent financing structured?**

   CHFA structures construction to permanent financing with two promissory notes: a construction note and a permanent note. Each note will have its own rate, loan amount, and term. Beginning at the initial closing and through the duration of the construction period, the notes will accrue interest, respectively, based on the construction note rate and the permanent note rate with no principal amortization. Interest payment will be due and payable on a monthly basis, in arrears, and may be capitalized in the development budget.

   At the end of the construction period, the construction note matures and is retired with other development financing with or without the proceeds from tax credits (LIHTC, Federal/State Historic Tax Credits, HTCCs, etc.). At this time, the permanent loan will automatically begin amortizing at the rate and term specified in the permanent note.

   Example: A development with the need of $10,000,000 in construction financing and an anticipated permanent loan amount of $4,000,000 will be structured as follows:

Construction Note:	$6,000,000
Construction Rate:	4.0%
Construction Term:	Twenty-four (24) months (from the initial closing date interest only)
Permanent Note:	$4,000,000
Permanent Rate:	5.0% (interest only for the first 2-years)
Permanent Term:	Forty-two (42) years from the initial closing date (the permanent loan amortization will begin after the 2-year interest only period)

   In summary, for the first twenty-four (24) months, interest accrues @ 4.0% x the unpaid construction note principal balance AND @ 5.0% x the unpaid permanent note principal balance. Beginning with month twenty-five (25), the payment of principal and interest on the permanent note begins at the 5.0% interest rate amortized over forty (40) years.

2. **What are the benefits of the two-note structure?**

   The two-note structure will allow greater predictability and reduce the need for amendments, modifications, and extensions of loan documents.

3. **What fees are associated with CHFA financing?**

   Information regarding the various fees may be found in the Multifamily Financing Program Parameters & Fees and CHFA Multifamily Rental Housing Program Guideline on the CHFA website.

4. **How is the Loan Origination Fee determined?**

The Loan Origination Fee shall be determined based on the total of the construction loan amount and permanent loan amount, as follows:

- 2.00% of Loan Amount ≤ $1,000,000;
- 1.75% of Loan Amount > $1,000,000 but ≤ $2,500,000;
- 1.50% of Loan Amount > $2,500,000 but ≤ $5,000,000; or
- 1.25% of the Loan Amount > $5,000,000

The Loan Origination Fee shall be payable, as follows:

- 25% due as Good Faith Deposit Fee payable two weeks prior to the Board meeting;
- 50% due upon signing of the commitment letter; and
- 25% due at initial closing

5. **Is the Good Faith Deposit Fee refundable?**

The Good Faith Deposit Fee shall be refundable if the CHFA's Board of Directors considers but does not adopt an authorizing resolution for financing. Otherwise, the Good Faith Deposit Fee shall be non-refundable. Following a Board approval, the Good Faith Deposit shall be credited against the Loan Origination Fee due at initial closing.

6. **When does the loan resolution expire?**

If the initial closing does not occur on or before the last business day of the ninth (9th) month following resolution adoption, the borrower will be subject to a "Resolution Extension" fee equivalent to 0.25% of the construction and permanent loan amounts. The resolution may be extended one time for up to six (6) months. Initial Closing Extension Fees and Rate Reset Fees will apply during the Resolution Extension period.

If the initial closing still does not occur within the Resolution Extension period, the application may be cancelled and voided. The applicant may be required to submit a new application and pay new fees; CHFA's Board of Directors' approval will be required again for a new application.

Consideration for extension of the initial closing deadline is contingent upon the borrower having satisfied requirements of submission for approval by the State Bond Commission, as applicable. CHFA reserves the right to waive any program fees resulting from delays beyond the borrower's control.

7. **How is the Bond Cost of Issuance Fee determined?**

The non-refundable Bond Cost of Issuance Fee shall be determined as follows:

- A flat fee itemized in the development budget. The flat fee option for construction-only financing, permanent-only financing, or construction/permanent financing shall be 1.5% of the construction loan amount and the permanent loan amount and will be paid at initial closing; or

- 0.25% will be added to the permanent loan interest rate for both construction/permanent and permanent-only financing. For construction-only financing, 0.75% will be added to the construction loan interest rate.

8. **How should the capitalized interest be calculated under the two-note structure?**

Historically, CHFA has calculated interest based on an estimated average percentage of the outstanding loan balance. Capitalized interest could be calculated in a similar manner under the two-note scenario. However with two distinct loans, the capitalized interest should be calculated separately for the construction loan and the permanent loan and reflected in separate lines in the development budget.

CHFA construction and permanent loan interest rates are set no later than 30 days prior to the initial closing. CHFA posts interest rates on its website on a weekly basis however underwriting rates may carry a 50-75 basis point cushion to guard against any major rate shifts prior to the thirty (30) day lock-in period. Upon a rate lock, capitalized interest estimates will be refined based on the projected draw schedule and the development budget as well as other financing exhibits will be finalized five (5) business days prior to Initial Closing.

9. **What is the term for the construction loan?**

The term for the construction loan is twenty-four (24) months. CHFA may allow, with adequate prior notice from the borrower, a construction loan term beyond twenty-four (24) months.

10. **What are the construction and permanent loan repayment terms?**

Each note will have its own interest rate and interest will accrue independently and at the same time.

The construction loan shall accrue interest on amounts advanced at the construction interest rate and shall be repaid monthly, in arrears, during the term of the construction loan, after which all construction loan principal and interest shall be due in full.

The permanent loan shall accrue interest on amounts advanced at the permanent interest rate and shall be paid monthly, in arrears: (i) interest only during the construction loan term; followed by (ii) principal and interest based upon the permanent loan amortization schedule for the permanent loan term, after which all outstanding permanent loan principal and interest shall be due.

Example: A development with a construction and permanent loan will have the following repayment terms:

Construction Rate:	4.0%
Construction Term:	Twenty-four (24) months from the initial closing date (interest only)
Permanent Rate:	5.0% (interest only for the first 2 years)
Permanent Term:	Forty-two (42) years from the initial closing date (the permanent loan amortization will begin after the 2-year interest only period)

For the first twenty-four (24) months, interest accrues @ 4.0% x the unpaid construction note principal balance AND @ 5.0% x the unpaid permanent note principal balance. Beginning with month twenty-five (25), the payment of principal and interest on the permanent note begins at the specified rate and term.

11. **How will CHFA disburse the permanent and construction loan proceeds?**

Commencing with the initial closing, each advance of loan proceeds shall be apportioned pari-passu (proportionate share) between construction and permanent loan proceeds. In the example above, CHFA will fund a $1,000,000 draw request 60% from the construction loan note and 40% from the permanent loan note.

12. **Will CHFA allow partial prepayment of the construction loan?**

Prepayment is not allowed on the construction loan until it is fully advanced. The construction loan is not payable in advance at any time prior to the first (1^{st}) day of the sixteenth (16^{th}) calendar month following the initial closing date. Provided that the construction loan is fully advanced, with adequate prior notice, CHFA may allow partial prepayment of the construction loan. Any partial prepayment subsequent to such date shall be in minimal increments of no less than $100,000.

13. **If a mortgagor does not receive the tax credit equity by the construction loan maturity to retire the construction note, will CHFA allow an extension of the construction loan term?**

At the end of the construction period, the permanent loan will be fully drawn automatically pursuant to the terms of the permanent note and will commence amortization. The construction loan, if not fully paid at maturity, will be a default. CHFA may elect to modify the terms of the construction loan and charge a fee of $5,000 per month until the loan is retired or the transaction achieves final closing, whichever occurs later.

14. **How should the two loans be reflected on the Allocation of Funds exhibit?**

The construction and permanent loans are to be reflected as two separate loans on the Allocation of Funds exhibit.

Example: A development with the need of $10,000,000 in construction financing and an anticipated permanent loan amount of $4,000,000 will be displayed on the Allocation of Funds exhibit as follows:

Construction loan:	$6,000,000
Permanent loan:	$4,000,000

The Construction Loan Paydown line will reflect the construction loan payoff amount of $6,000,000.

Rate-Lock Feature

1. **How does CHFA's rate-lock feature work?**

   CHFA will commit to a maximum interest rate, or a "not-to-exceed" rate, which is 0.50% higher than the prevailing construction and permanent interest rates, once the Board of Directors adopts the loan resolution. The commitment letter will reflect the maximum interest rates. The construction and permanent interest rates will be set no later than thirty (30) days prior to the initial closing, by virtue of an amendment to the commitment letter.

   The initial closing date will only be set once CHFA has received sufficient documentation to demonstrate that an Initial Closing can occur within thirty (30) days.

2. **What are the fees associated with CHFA's rate-lock process?**

   The fees are listed on CHFA's Multifamily Financing Program Parameters & Fees.

3. **What happens if the borrower cannot reach initial closing within 30 days of locking the permanent rate?**

   If the borrower is unable to achieve initial closing within thirty (30) days of locking in the construction and permanent rates, the borrower will be charged an "Initial Closing Extension" fee equivalent to 0.25% of the construction and permanent loan amounts.

   If the borrower cannot reach Initial Closing within sixty (60) days of locking in the rate, the borrower will be charged a "Rate Reset" fee equivalent to 0.25% of the construction and permanent loan amounts. The construction and permanent interest rates will be reset based on the prevailing market rate at the time of the reset.

4. **What is the penalty for not reaching final closing by the agreed upon date?**

   If a mortgagor fails to achieve final closing by the agreed upon date, the mortgagor will be required to pay a fee of $5,000 each month beyond such date for a maximum of six (6) months.