

# AMORTIZING FIRST MORTGAGES

## FHA/HUD Section 221(d)(4): Construction or Substantial Rehabilitation

### Program Overview

Mortgages financed under Section 221(d)(4) of the National Housing Act are insured by the Federal Housing Administration (FHA) to facilitate the new construction or substantial rehabilitation of multifamily rental housing.

### Application Process

Applications accepted throughout the year.

### Lending Terms

**Eligible Properties:** Market rate, low-to-moderate income and subsidized multifamily properties. Independent living facilities may qualify as long as all services are optional and fees from services and meals are not included in underwritten rents.

**Loan Purpose:** New construction or substantial rehabilitation. For-profit or nonprofit borrowers may utilize this program. Substantial Rehabilitation calculated as:

- Cost of improvements more than higher of:
  - 15% of post-rehabilitated appraised value, or
  - \$15,000 per unit adjusted for local high cost factor, or
- Replacement of two or more major building components

### Loan Parameters:

#### New Construction

Maximum loan will be the lesser of:

- Loan to eligible cost or NOI:
  - 85% for market rate transactions;
  - 87% for affordable transactions;
  - and
  - 90% for projects with 90% or greater rental assistance
- FHA mortgage statutory per unit limits adjusted for local high cost factor, or
- An amount that achieves a minimum debt service coverage, as follows:
  - 1.176 DSC for market rate properties;
  - 1.15 DSC for affordable transactions; and
  - 1.11 DSC for projects with 90% or greater rental assistance

#### Substantial Rehabilitation

Maximum loan will be the lesser of:

- Loan to eligible rehab costs:
  - 85% for market rate transactions;
  - 87% for affordable transactions;
  - and
  - 90% for projects with 90% or greater rental assistance
- FHA mortgage statutory per unit limits adjusted for local high cost factor, or
- An amount that achieves a minimum debt service coverage, as follows:
  - 1.176 DSC for market rate properties;
  - 1.15 DSC for affordable transactions; and
  - 1.11 DSC for projects with 90% or greater rental assistance

<b>Term and Amortization:</b>	Actual construction period plus 40 years (fully amortizing with interest only payable during construction period).
<b>Borrower:</b>	Single asset entity
<b>Recourse:</b>	Non-recourse
<b>Interest Rate:</b>	Fixed for term of loan, including construction period, determined by market at time of rate lock.
<b>Prepayment and Assumption:</b>	Negotiable; typically includes a lockout followed by a declining percentage prepayment penalty. Loan is fully assumable subject to HUD approval.
<b>Davis Bacon Wages:</b>	Payment of prevailing wages is required by HUD; wages are determined by the Department of Labor.
<b>Mortgage Insurance Premium:</b>	Payable at Closing for each year of construction at the following rates: <ul style="list-style-type: none"> <li>• 0.60% times outstanding balance for market rate projects</li> <li>• 0.25% times outstanding balance for affordable, subsidized and Green projects</li> </ul> Following construction, MIP is due annually, collected monthly, at the applicable rate.
<b>Third Party Reports:</b>	Including, but not limited to: Appraisal, Market Study, Environmental, Radon, Construction Cost Review, and Plans and Specs Review, as required.
<b>Fees and Expenses:</b>	<ul style="list-style-type: none"> <li>• Processing Fee to cover third party reports, lender processing and other application materials due at engagement</li> <li>• FHA Exam Fee of 0.15% of the mortgage amount due with submission of pre-application and 0.15% due with submission of firm application</li> <li>• FHA Inspection Fee of 0.5% of the mortgage amount for new construction and 0.5% of improvement costs for substantial rehabilitation</li> <li>• FHA Mortgage Insurance Premium due at closing: <ul style="list-style-type: none"> <li>• 0.60 % times loan amount for market rate projects</li> <li>• 0.25% times loan amount for affordable and subsidized projects</li> </ul> </li> <li>• Post construction, MIP is due annually, collected monthly, at the applicable rate</li> <li>• Financing fee payable at closing</li> <li>• Good Faith Deposit due at Note rate lock, refundable post-closing</li> </ul>
<b>Escrows:</b>	<ul style="list-style-type: none"> <li>• Replacement reserves required in accordance with HUD guidelines</li> <li>• Taxes and Insurance escrowed monthly (post construction)</li> <li>• MIP escrowed monthly (post construction) per rates above</li> <li>• Working Capital Reserve equal to 4% of loan amount (post in cash or LOC)</li> <li>• Operating Deficit Reserve equal to 3% of loan amount, or greater as determined by HUD at commitment (post in cash or LOC)</li> </ul>

## Questions

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