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. Affordable projects must have income restrictions of at least 20 percent of the units at 50% of AMI ***OR*** 40 percent at 60% AMI, with economic rents no greater than low income housing tax credit (LIHTC) rents and a Regulatory Agreement in effect for at least 15 years after loan closing.

Loan Purpose:

New construction or substantial rehabilitation. For-profit or nonprofit borrowers may utilize this program. Substantial rehabilitation must meet at least one of the following tests:

1. Cost of improvements greater than:
    - 15 percent of post-rehabilitated appraised value, or
    - $15,000 per unit adjusted for local high cost factor
2. Replacement of two or more major building components

Loan Parameters:

Maximum loan will be the lowest of:

- Applicable percent of loan to value (LTV)
- Applicable debt service coverage ratio (DSCR)
- FHA mortgage statutory per unit limits adjusted for local high cost factor, or

For market rate projects or LIHTC properties with less than a 10 percent rent advantage: **85 percent LTV; 1.176 DSCR**

For affordable projects with at least a 10 percent rent advantage: **87 percent LTV; 1.15 DSCR**

For projects with 90 percent or greater rental assistance, applicable factors: **90 percent LTV; 1.11 DSCR**

For 202 properties, applicable factors: **90 percent LTV; 1.11 DSCR**

Term and Amortization:

Up to 36 month construction period plus 40 years (fully amortizing with interest only payable during construction period)

MINNESOTA HOUSING

800.657.3647

www.mnhousing.gov

Borrower:	Single asset entity
Recourse:	Non-recourse. Principals must ensure compliance with the project's Regulatory Agreement.
Interest Rate:	Fixed for the term of the loan, including construction period, determined by market conditions at time of rate lock.
Prepayment and Assumption:	Negotiable. Typically includes a lockout followed by a declining percentage prepayment penalty. Loan is fully assumable, subject to HUD approval.
Davis Bacon Wages:	Prevailing wages are required by HUD; wages are determined by the U.S. Department of Labor.
Third Party Reports:	May include reports such as appraisal, market study, environmental, radon, construction cost review, and plans and specs review.

Fees and Expenses:

- Processing Fee to cover third party reports, lender processing and other application materials due at engagement
- FHA Exam Fee of 0.30 percent of loan amount due with submission of firm application
- FHA Mortgage Insurance Premium (MIP) is payable at closing for each year of construction at the following rates:
  - 0.25 percent for broadly affordable (90%+ Section 8 or LIHTC) and green/energy efficient
  - 0.35 percent for affordable/inclusionary properties (10% – 90% Section 8 or LIHTC)
  - 0.65 percent for market rate projects

  Following construction, MIP is due annually and collected monthly at the applicable rate
- FHA Inspection Fee of 0.5 percent of the mortgage amount for new construction and 0.5 percent of improvement costs for substantial rehabilitation
- Financing fee payable at closing
- Good Faith Deposit due at note rate lock; refundable post-closing

Escrows:

- Replacement reserves required in accordance with HUD guidelines
- Taxes and insurance escrowed monthly (post construction)
- MIP escrowed monthly (post construction), per rates above
- Working Capital Reserves equal to 4 percent of loan amount (post in cash or letter of credit)
- Operating Deficit Reserves equal to 3 percent of loan amount, or greater as determined by HUD at commitment (post in cash or letter of credit)

Questions

Caryn Polito, Business Development Analyst: 651.297.3123 or caryn.polito@state.mn.us.