

# FHA/HUD 221(d)(4): NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION FOR MULTIFAMILY PROPERTIES



## GENERAL TERMS

Eligible Properties	Multifamily properties with at least five residential units
Eligible Borrowers	Single-asset, special purpose entity (for profit or not-for-profit)
Amortization	Fixed rate, fully amortizing
Term and Amortization	Interest-only during construction followed by 40 years fully-amortizing
Maximum Loan Amount	For <i>new construction</i> loans less than \$75 million, the lesser of statutory per unit limits and the following:

Property Type	Eligible Loan to Cost	Minimum Debt Coverage
Subsidized <sup>1</sup>	90%	1.11x
Affordable <sup>2</sup>	87%	1.18x
Market Rate	85%	1.18x

For *substantial rehabilitation*, the following additional limitation applies:

- 100% of the rehabilitation cost plus the lesser of: 95% of the property's as-is market value or 100% of existing indebtedness (if owned) / 85% eligible acquisition cost (if to-be-purchased)

Prepayment Options	Negotiable with the best pricing for 10 years of call protection (can be a combination of lockout and/or penalty)
Assumability	Yes, subject to FHA/HUD approval
Personal Liability	Non-recourse loan subject to carve-outs for fraud and misrepresentation

## ADDITIONAL PARAMETERS

Repair Limitations	For <i>substantial rehabilitation</i> , cost of rehabilitation must exceed \$16,983 per dwelling unit adjusted by the applicable High-Cost Factor
Commercial Space	Limited to 25% of total net rentable area and 15% of effective gross project income
Third Party Reports	Market Study, Appraisal, Phase I ESA, and Architectural Plans, Specifications and Cost Review
Davis Bacon Wages	Payment of prevailing wages is required for all contractors and subcontractors
Cost Certification	The borrower must submit a cost certification prepared by an independent CPA upon completion
BSPRA	For <i>new construction</i> , Builder and Sponsor Profit and Risk Allowance (BSPRA) is equal to 10% of all costs other than land for sponsors with an identity-of-interest general contractor  For <i>substantial rehabilitation</i> , BSPRA is 10% of the above costs exclusive of the as-is value of the existing structure

Developer's Fee	May be available for not-for-profit borrowers or sponsors. Cannot be included if BSPRA is utilized
Escrows	Property taxes, insurance, HUD mortgage insurance premium and replacement reserves
Additional Escrows	Working capital (4% of the loan amount) and Initial Operating Deficit. Balances will be released after six consecutive months of break-even operations
HUD Application Fee	0.30% of the mortgage amount
HUD MIP	The initial mortgage insurance premium is 1.00%, 0.35%, or 0.25% of the mortgage amount for market rate, affordable <sup>2</sup> , and subsidized <sup>1</sup> or green/energy efficient properties, respectively  Thereafter, 0.65%, 0.35%, or 0.25% annually, payable in monthly installments for market rate, affordable <sup>2</sup> , and subsidized <sup>1</sup> or green/energy efficient properties, respectively
HUD Inspection Fee	0.50% of mortgage amount for new construction or 0.50% of total improvement cost for substantial rehabilitation

1 – Subsidized properties have 90% or greater rental assistance with program contact or regulatory agreement in place for at least 15 years.

2 – Affordable properties have 10%-90% units set aside limited to 80% AMI, covered by Section 8 contract, or affordable use restriction.