



## CONSTRUCTION AND SUBSTANTIAL REHABILITATION OF MULTIFAMILY PROPERTIES

FHA Section 221(d)(4) Mortgage Insurance Program

### ELIGIBLE MULTIFAMILY PROJECTS

- a) Market rate, moderate-income and subsidized properties.
- b) No rent control
- c) Student housing is not excluded, but multiple rents from one unit will not be underwritten
- d) Seniors housing may qualify so long as meals and services are optional, with fees for meals and services excluded from rents.
- e) Limitation on commercial space: no more than 10% of net rentable area and 15% of effective gross income.

### USE OF PROCEEDS

Proceeds can be used for New Construction or Substantial Rehabilitation

(Substantial Rehabilitation is defined as projects that include either rehabilitation costs equal to the greater of 15% of post-rehabilitation appraised value or \$6,500 per unit, adjusted for applicable high cost factor; or else replacement of two or more major building components)

### BORROWER

Single-asset entity

### LOAN PARAMETERS

The maximum loan amount for **New Construction** is the least of:

- a) 90% of estimated replacement cost, including a developer's fee equal to 10% of all hard and soft costs other than the land (*Cost of offsite improvements; furniture, fixtures and equipment; marketing costs that exceed the working capital escrow; construction contingency; and operating deficit reserve are excluded from the loan amount*).
- b) FHA's statutory per-unit limit with a geographic cost adjustment factor, or
- c) Amount that meets a 1.11 times debt service coverage test utilizing the all-in loan constant.

**NOTE: The loan amount is not limited by appraised value and may exceed appraised value.**

*Continued*



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### LOAN PARAMETERS continued

The maximum loan amount for **Substantial Rehabilitation** is the least of:

- a) the as-is value plus 90% of the cost of rehabilitation. *(Cost of furniture, fixtures and equipment, marketing costs that exceed the working capital escrow and operating deficit reserve are not included in the loan amount)*
- b) FHA's statutory per-unit limit with a geographic cost adjustment factor, or
- c) Amount that meets a 1.11 times debt service coverage test utilizing the all-in constant

### TERM AND AMORTIZATION

Actual construction term plus up to 40-years; Loan will fully amortize over permanent portion of loan term.

### PREPAYMENT

Negotiable. Typically two-year lockout with 8% penalty in the third year, reducing 1% each succeeding year.

### INTEREST RATE SET

After acceptance of FHA commitment and prior to closing *(Contact Longview to discuss early rate lock options)*

### RECOURSE

Non-recourse

### ASSUMABLE

Loan is assumable, subject to HUD approval and payment of an assumption fee and related transaction expenses.

### FEES AND EXPENSES

- a) FHA Application fee of 0.3% ; due at application of firm commitment to HUD
- b) FHA Mortgage Insurance Premium at FHA's prevailing rates as determined by HUD
- c) FHA Inspection Fee: 0.5% of the loan amount for New Construction; 0.5% of improvements and developer's fee for Substantial Rehabilitation, paid at closing
- d) Financing and Permanent Placement Fees: up to 3.5%, paid at closing
- e) Third party report cost



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### ESCROWS

- a) Replacement Reserves are required in accordance with HUD guidelines in which the standards are:
  - New Construction: No initial deposit. After construction, an annual deposit, paid monthly, equal to 0.6% of structures (hard costs other than land improvements).
  - Substantial Rehabilitation: Initial deposit is determined by a third-party engineer or HUD, based on the expected useful lives of capital items not replaced. An annual deposit, paid monthly, equal to 0.4% of the loan amount.
- b) Taxes and Insurance: Budgeted under the construction loan and disbursed as required. At final endorsement, normal escrows are established and deposits are made monthly with mortgage payments.
- c) Working Capital Reserve: Cash or letter of credit of 2%. Unfunded portion released after stabilized operations are achieved.
- d) Operating Deficit Reserve: Amount and timing of release of unused funds is determined by FHA at commitment.

### DAVIS BACON ACT

Payment of prevailing wages is required. Wage rates are determined by Department of Labor.

### PROCESS AND TIMELINE

HUD offers two choices for processing loans under this section of the National Housing Act as follows:

- a) Two-Step Process:
  - Pre-Application: Borrower and Lender work together to assemble and submit preliminary project data along with a market study and an environmental report. HUD has 45 days to review and issue an Invitation to Firm Commitment.
  - Firm Commitment Application: Includes all third-party reports; full plans and specifications; general contractor's costs; full credit review of the borrower entity, principals and general contractor; description of proposed property manager; and business plan. HUD review time is up to 45 days. The time from Engagement Letter to closing is approximately nine months for the two-step process.
- b) One-Step Process: At the borrower's option, the above process can be combined into one application. HUD review time is up to 60 days. The time from Engagement Letter to closing is approximately six months.