

# FHA SECTION 221(d)(4)

## MULTIFAMILY NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION LOAN

### PROGRAM OVERVIEW

This program provides non-recourse, assumable construction and permanent financing for new apartments or substantial rehabilitation of existing apartments.

### QUALIFIED PROPERTIES

New construction or substantial rehabilitation of apartment properties

For a property to qualify for substantial rehabilitation, the cost of repairs, replacements and/or improvements to the existing property exceeds \$15,000 per unit adjusted by the applicable High Cost Factor for that area; or two or more major building components are being replaced regardless of cost

New construction or substantial rehabilitation for age-restricted properties is permitted under Section 231. All occupants must be 62 or older

Section 220 provides for slightly higher statutory loan limits (elevator buildings) and higher limits on commercial income. Section 220 can be used for mixed use housing projects in urban renewal areas, code enforcement areas, and other areas where local governments have undertaken designated revitalization activities

### MAXIMUM TERM

Lesser of 40 years (fully amortizing) plus construction period, or 75% of remaining economic life

### DEBT SERVICE COVERAGE

1.176x for market rate transactions; 1.15x for affordable transactions; 1.11x for projects with 90% or greater rental assistance

### LOAN TO COST

85% of replacement cost (development cost plus as-is value) for market rate; 87% of replacement cost for affordable; 90% of replacement cost for projects with 90% or greater rental assistance

### PERSONAL LIABILITY

FHA loan is non-recourse, with standard carve-outs

### ASSUMABILITY

Yes, subject to FHA approval

### COMMERCIAL LIMITATIONS

25% of total net rentable area; 15% of effective gross income

### FEES AND EXPENSES

0.30% application fee (half due at pre-application stage for market rate projects). Financing and permanent placement fees not to exceed 3.5% are based on final loan amount, earned at commitment and payable at closing. HUD inspection fee for new construction is 0.5% of mortgage amount. Love Funding will charge a nominal processing fee

## MORTGAGE INSURANCE PREMIUM

0.25% to 0.70% of loan amount due at initial loan closing for each 12 months of construction term, or part thereof; 0.25% to 0.70% of the outstanding principal balance calculated annually thereafter

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## OTHER FHA REQUIREMENTS

- Working Capital Escrow - New Construction: 4% of loan amount (2% allocated to construction contingency and 2% to working capital expenses)  
Working Capital Escrow - Substantial Rehabilitation: 2% of loan amount
- Construction contingency balance at final endorsement may be released at that time
- Unused working capital and initial operating deficit escrows to be released later of 12 months from final endorsement or 6 consecutive months of break-even occupancy
- Initial operating deficit escrows will be required and can be posted in cash or letter of credit, which will be the greater of:
  - Amount determined to be appropriate based on underwriting analysis and appraisal;
  - Three percent of the mortgage amount; or
  - Four months debt service (principal and interest and MIP) if the property is walk-up, or 6 months debt service if the property is an elevator building where a single certificate of occupancy must be issued before any of the units or entire floors can be rented.
- The absorption period used in estimated market demand for the proposed number of units is restricted to 18 months
- Any "off site" construction costs or demolition costs require separate funding by the borrower
- An "Initial Endorsement" will commence the construction phase
- The general contractor must pay Davis-Bacon prevailing wage rates as required by the Department of Labor
- The mortgagor must retain a qualified arms-length supervisory architect during construction
- A cost certification for the owner will be required after construction completion. General contractors are required to submit a cost certification if there is an identity of interest with the borrower
- The general contractor must execute a lump sum or cost plus contract depending on relationship between owner and contractor, provide a 100% performance and payment bond (or cash escrow or letter of credit acceptable to FHA), and have liquid net worth equal to at least 5% of the project construction contract plus all other uncompleted construction work
- FF&E may be included in the mortgageable project cost
- Large loan sizes are subject to more conservative underwriting
- Escrows for property taxes, insurance, MIP and replacement reserves required