

FHA SECTION 241(a)

MORTGAGE INSURANCE FOR SUPPLEMENTAL LOANS FOR MULTIFAMILY PROPERTIES

PROGRAM OVERVIEW

This program provides insured second mortgages to finance repairs, replacements (including major movables), energy conservation measures, and additions to existing FHA-insured multifamily properties. The program is intended to keep a property competitive, extend its economic life, and provide replacement of obsolescent equipment.

MAXIMUM LOAN

The lesser of:

- (a) 90% of the total eligible Replacement Costs of the project
- (b) The maximum statutory limitation applicable to the Section of the Act which the existing first mortgage is insured, based on the sum of the outstanding balance of the first mortgage and the supplemental loan
- (c) 90% of NOI inclusive of debt service payments on first mortgage

MAXIMUM TERM

The term of the 241(a) loan must be coterminous with the underlying FHA-insured first mortgage, unless the remaining term is less than 25 years. If less than 25 years remain on the first mortgage, the term is up to 40 years, but not to exceed 75% of remaining useful life

OCCUPANCY

Maximum underwritten physical occupancy not to exceed parameters of underlying mortgage insurance program

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 due at submission of application. Financing and permanent placement fees of up to 3.5% are based on final loan amount due upon commitment and payable at closing. HUD inspection fee for 241(a) is 0.5% of mortgage amount. Love Funding will charge a nominal processing fee

MORTGAGE INSURANCE PREMIUM AND FHA FEES

0.95% of loan amount due at initial loan closing for each 12 months of construction term, or part thereof; 0.95% of outstanding principal balance thereafter. Qualifying affordable or green transactions may have reduced MIP rates ranging from 0.25%-0.35%

PREPAYMENT

Typically closed for 2 years then open to prepayment at 108% in year 3, declining 1% per year. Other variations are possible based on market conditions and borrower preferences

ELIGIBILITY

In addition to most hard and soft construction costs, the purchase price of the site (land) is eligible for the 241(a) loan

OTHER FHA REQUIREMENTS

- Loans insured under 241(a) assume program characteristics of the underlying the mortgage insurance program
- 241(a) financing is a supplement to the existing insured loan and is available without refinancing the existing loan
- Owner is required to contribute at least 10% of total development costs of the transaction
- A cross-default provision with the prior recorded insured mortgage should be placed in the 241(a) loan documents
- Davis-Bacon prevailing wage requirements do apply except for (1) the underlying mortgagor is a Section 223(f) that was not subject to Davis-Bacon or a 223(a)(7), and (2) projects with a Secretary-held mortgage if the project did not originally have an FHA-insured loan that was subject to Davis-Bacon
- A Capital Needs Assessment (CNA) is required and should be supplemented with Plans, Specifications, and Cost analysis per requirements for Section 221(d)(4)
- A Phase I Environmental Report is required if funding significant improvements, additional units, or an increase in a building footprint
- Working Capital and IOD requirements are the same as the 221(d)(4) program but are waivable in some cases
- A cost certification by the owner will be required after construction completion. If an Identity of Interest exists between the general contractor and the owner, a lump sum contract is not permitted and the general contractor will be required to do a cost certification