

**HUD INSURED LOANS for NEW CONSTRUCTION or
SUBSTANTIAL REHABILITATION of
RENTAL APARTMENTS
Section 221(d)**

~ Multifamily Accelerated Processing ~

PROGRAM FEATURES

- Fixed rate, level pay
- Long term-40 years
- Fully assumable
- Non-recourse
- 90% of NOI
- 90% of costs
- FHA insurance **does not limit** rents, tenant incomes, or return on equity.

QUALIFYING PROPERTY

- Any rental property of five or more units, requiring new construction or substantial rehabilitation.

Substantial rehabilitation is defined as:

- replacement of two or more building systems; or,
- rehabilitation costing the greater of \$6,500 per unit times the local high cost factor; or, 15% of after-rehabilitation value.

LOAN AMOUNT – Section 221(d)(4) For-Profit Borrowers

New Construction, least of:

- 90% of estimated replacement cost of the project, including hard and soft costs of construction plus 10% Builder and Sponsor Profit and Risk Allowance (BSPRA) and land at market value; or,
- An amount for which debt service does not exceed 90% of the estimated net operating income based on today's rents and expenses; or,
- An amount equal to the HUD statutory unit cost limit adjusted by the local high cost factor plus 90% of the cost of improvements not attributable to dwelling use.

Substantial Rehabilitation, least of:

- 90% of the estimated replacement cost of the project, which includes the hard and soft costs of rehabilitation plus BSPRA and the "as is value" of existing improvements before rehabilitation; or,
- An amount for which debt service does not exceed 90% of the estimated net operating income based on today's rents and expenses; or,
- An amount equal to the HUD statutory unit cost limit adjusted by the local high cost factor plus 90% of the cost of improvements not attributable to dwelling use.

LOAN TERM

- The maximum loan term is the lesser of 75% of the remaining economic life of the property or 40 years, plus the construction period.

INTEREST RATE

- Interest rates are fixed rate, level-pay for the life of the loan, and are set at the time the loan is purchased, which occurs after HUD issues a Firm Commitment and before Initial Endorsement (Construction Loan Closing). Prepayment penalties and discounts vary depending on market conditions.

SECONDARY FINANCING

- Secondary financing from federal, state, or local agencies is permitted, but must be fully subordinated to the HUD-insured loan. Private secondary debt from charitable organizations may also be secured by the property but must also be fully subordinated to the HUD-insured loan. The term of secondary financing must equal or exceed the term of the HUD insured loan.

UNDERWRITING PROCESS

AGM prepares a preliminary mortgage calculation. If this indicates that the project qualifies for an acceptable HUD-insured loan, AGM will schedule a site visit with the Borrower and informally discuss the project with the local office of HUD. The formal application is made in either one or two stages. The standard two stage application described below can be combined into one at the borrower's discretion.

1. **Pre-Application:** A pre-application package includes a Phase I, Form HUD-4128 (further environmental investigation), a market study, and a limited appraisal. Once HUD accepts the pre-application, HUD has up to 45 days to issue an Invitation to Apply or reject the application.
2. **Firm Commitment Application:** The Borrower then has up to 120 days plus three 30-day extensions for good cause to file a Firm Commitment Application. This application includes the complete appraisal, full plans and specifications with an independent review, management documentation and all mortgage credit documents. HUD has another 45 days to issue a Firm Commitment after HUD accepts the application.

COMMITMENT and CLOSING

- Once AGM receives an acceptable Firm Commitment from HUD, the Borrower's closing attorney prepares the HUD closing package with HUD's and lender's closing attorneys. The debt is competitively bid. Closing is scheduled by HUD.

MORTGAGEABLE FEES

- HUD Application Fee 0.3% of the mortgage
- Inspection fee 0.5% of the mortgage (New); or
0.5% of construction plus certain fees (Rehab)
- Financing Fee 2.0% of the mortgage
- Placement Fee 1.5% of the mortgage
- Mortgage Insurance Premium Reset annually by HUD
(Paid each 12 months of Construction)
- Review Fees Appraisal, Market Study, all Environmental
Reports, Plans and Cost Review

ANNUAL FEES AND RESERVES (Paid Monthly)

- Mortgage Insurance Premium Reset annually by HUD
- Reserve for Replacement 0.6% of structures (New); or,
0.4% of Mortgage (Rehabilitation)
- Taxes and Insurance Adjusted annually

LETTERS OF CREDIT

- 2% Working Capital; posted at Initial Closing and released one year after the construction contract completion date.
- Operating Deficit calculated by HUD; posted at Initial Endorsement and released as needed or after 90 days sustaining occupancy.
- Off-Site, if required, posted at Initial Endorsement and released when work is complete.
- Completion Assurance of 100% Payment and Performance bonds; or letter of credit equal to 15% of the construction contract amount for low-rise, or 25% for high-rise -- posted at Initial Closing, released at Final Closing and replaced by 2.5% Latent Defects Escrow.

OTHER PROGRAM FEATURES

- Nonprofit Borrowers use Section 221(d)(3), underwritten at 100% of costs, 95% of NOI; developer's fee is permitted; MIP is higher than for-profit 221(d)(4).
- MAP processing requires a 3rd party market study, appraisal, environmental, and plans & cost review at your expense. AGM completes mortgage credit.
- Davis-Bacon (prevailing) wages are applicable under Section 221(d) financing. All costs must be certified. Residential wages apply to buildings 4-stories or less, Building (high-rise) wages apply to 5-stories or more.
- Interim income during construction is restricted and must be certified at Final Closing.
- Firm Commitment requires 100% plans, specifications, and costs (except LIHTC projects, which require these prior to closing).
- Equal employment and housing opportunity requirements apply.
- Environmental reviews will be conducted by HUD (based on information supplied by an environmental analyst) for conditions associated with noise, flood plains or wetlands, historic location, or toxic wastes.
- Maximum Residential occupancy for underwriting is 95%.
- Rents and expenses must be comparable to the marketplace.