



## **Affordable Housing**

### **FHA Section 221(d)(4)**

#### **New Construction or Substantial Rehabilitation**

HUD defines Affordable Housing as:

1. Rent and income restrictions must be imposed, monitored and enforced by a governmental agency for at least 15 years after Final Endorsement and
2. Either:
  - a. a recorded Regulatory Agreement requiring the project to meet at least the minimum LIHTC restrictions of 20% of units at 50% of the Area Median Income (AMI), or 40% of the units at 60% AMI, with economic rents (portion paid by tenants) on those units no greater than LIHTC rents; or
  - b. a Project-Based Section 8 contract for 90% of the units.

#### **Program Highlights:**

- Fixed Interest Rate
- Fully Amortizing
- Non-Recourse during Construction and Permanent Loans
- Assumable Construction and Permanent Financing

#### **Program Terms:**

Eligible Properties:

New construction or substantial rehabilitation of apartment properties.

For a property to qualify for substantial rehabilitation it must be at least three years old and the scope of work (not including costs of an addition) must:

- Exceed in aggregate cost a sum equal to the base per dwelling unit limit times the applicable High Cost Factor or
- Replace two or more major building systems. There are 5 building systems (Structural Frame, Building Envelope, Mechanical, Electrical and Plumbing) and a system is considered "replaced" when the costs of replacement work equal or exceeds 50% of the cost of replacing the entire system.

Maximum Term:

40 year term, fully amortizing, plus construction period

Debt Service Coverage:

1.11 DCR for projects with 90% or greater rental assistance on an underwritten occupancy up to 97% or 1.15 DCR for project meeting the Affordable Housing Definition on an underwritten occupancy up to 95%

Loan to Cost:

90% of Replacement Cost (development cost plus as-is value or fully improved land value) for projects with 90% or greater rental assistance or 87% of Replacement Cost for project meeting the Affordable Housing Definition

Personal Liability:

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

Assumable:

Yes, subject to FHA approval.

Fees and Expenses

0.30% application fee. Financing and permanent placement fees of up to 3.5% are based on final loan amount and payable at closing. HUD inspection fee for new construction is 0.5% of mortgage amount.

Mortgage Insurance Premium:

0.35% of loan amount due at initial loan closing for each 12 months of construction term, or part thereof; 0.35% of the outstanding principal balance calculated annually thereafter. Reductions in MIP are available for Green/Energy Efficient Housing.

#### **Other FHA Requirements:**

- FF&E & Developer Fee may be included as a mortgagable project cost.
- Construction Contingency is allowed for Substantial Rehabilitation only and ranges from 10% to 15% of the sum of structures, land improvements, and general requirements based on the condition of the structure.

- Commercial space is limited to 25% of total net rentable area and commercial income to 15% of effective gross income (waivers allowable).
- Secondary Financing from federal, state or local agencies is permitted, but must be fully subordinated to the HUD insured loan and repaid from cash flow.
- Working Capital Escrow equals 4% of loan amount with 2% allocated to construction contingency and 2% to working capital expenses; and can be posted in cash or letter of credit. Unused Working Capital will be released the later of 12 months from final endorsement or 6 months of break-even occupancy.
- Initial Operating Deficit escrow will be required and can be posted in cash or letter of credit.
- The absorption period used in estimated market demand is restricted to 18 months.
- Borrowers, management agents, contractors and subcontractors must comply with HUD Fair Housing and Equal Opportunity requirements.

**General Contractor Requirements:**

- The general contractor must pay Davis-Bacon prevailing wage rates as required by the Department of Labor.
- A cost certification for the general contractor and owner will be required after construction completion.
- The general contractor must provide a 100% performance and payment bond (or 15-20% 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.