



## Market Rate Multifamily Housing

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

#### New Construction or Substantial Rehabilitation

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#### **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:	1.176 DCR on an underwritten vacancy of at least 7%
Loan to Cost:	85% of Replacement Cost
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. Third party reports include an Appraisal, Market Study and Phase 1 Environmental Site Assessment as well as an A&E and Cost Review.
Mortgage Insurance Premium:	0.65% of the outstanding principal balance calculated annually. Reductions in MIP are available for qualified Green/Energy Efficient Housing.

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

- 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. Initial Operating Deficit escrow will also be required. Both escrows can be posted in cash or letter of credit
- Escrows for property taxes, insurance, MIP and replacement reserves are required and will be held by the Lender.
- The absorption period used in estimated market demand is restricted to 18 months.
- Any "offsite" construction costs or demolition costs require separate funding by the borrower.
- Borrowers, management agents, contractors and subcontractors must comply with HUD Fair Housing and Equal Opportunity requirements.
- HUD requires that all parties (Principals, General Contractor, Architect and Management Agents) have multifamily development experience.

#### **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.

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