FREQUENTLY ASKED QUESTIONS HUD 221(d)(4) Construction Loan for Multifamily Apartments

1

What items should a developer have ready to provide for an analysis?

- **Prior multifamily or HUD experience** of the development team members which include the borrower/developer, general contractor and management company
- **Include detailed Pro Forma Operating Statements** with as much information as possible on number of units, unit mix, rent projections, and expense projections
- **Estimated construction costs** of the project
- **Market research or market study** reflecting the demand for additional units that can be quickly absorbed after construction is completed

2

Is a working capital escrow required?

Yes, a working capital escrow of 4% of the loan amount is required (2% allocated to construction contingency and 2% to working capital expenses).

3

Are HUD/FHA 221(d)(4) transactions based on LTV or LTC?

They are based on Loan-to-Cost (LTC). LTC is a ratio used to determine how much of a development project will be financed by debt versus equity. LTC is defined as the value of the loan divided by the cost of the project. The Loan-to-Value (LTV) is the ratio of the value of a loan to the market value of the property, as opposed to the cost of construction for a project. LTV is the mortgage amount divided by the appraised value of the property.

4

Are HUD FHA 221(d)(4) transactions assumable?

Yes. The loan is fully assumable with approvals from both the lender and HUD and an assumption fee of 0.05% of the original loan amount

5

What are a few important factors that HUD considers in their pre-application review?

1. **That there is demand for the units proposed** and there is not an oversupply in the current proposed market, as well as other proposed units coming online.

2. **Environmental remediation** at the site that there is the removal of pollution or contaminants from environmental media such as soil, groundwater, sediment, or surface water.