FHA/HUD Section 221(d)(4) Term Sheet

Construction or Substantial Rehabilitation of Multifamily Properties

The FHA/HUD 221(d)(4) program offers long-term fixed-rate financing for new construction or the substantial rehabilitation of multifamily apartment project nationwide. Applications are typically processed in a 2-stage application (Preliminary Application followed by a Firm Application). Development teams with prior HUD experience may request a "straight to Firm Application" expediting the process by eliminating the Preliminary Application stage

Eligible Properties

Market rate and affordable multifamily properties

For a property to qualify as substantial rehabilitation, the cost of repairs, replacements and or improvements to the existing property must exceed $15,000 per unit adjusted by the applicable high-cost factor for that area; or the renovation will replace 2 or more major building components.

Eligible Borrowers

Single asset entities, either nonprofit or for profit

Interest Rate

Interest only rate during the construction phase that that converts to a fixed rate fully amortizing permanent loan upon completion of construction

Recourse

The transaction is non-recourse.

Loan to Cost

87% for market rate
90% for affordable
90% for **90%** or greater rental assistance

Davis Bacon Wages

General Contractor must pay prevailing wage rates as required by the Department of Labor.

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Minimum Debt Service Requirements

1.15x for market rate
1.11x for affordable
1.11x for **90%** or greater rental assistance

Commercial Limitations

25% of total net rentable area; and **15%** of the effective underwritten gross income.

Term and Amortization

Interest only during construction followed by a fixed-rate **40** years fully amortized term.

Escrows

The working capital escrow requirement for new construction transactions will be 4% of the mortgage amount, half of which will be a construction contingency for cost overruns and approved change orders. Separate provisions within the working capital escrow will govern the remaining 2% construction contingency. The construction contingency portion of the escrow will be refunded to the developer at Final Endorsement if not used. Construction funded from the contingency portion of the working capital escrow may be considered as the basis for a request for an increased mortgage amount.
Taxes, insurance, replacement reserves, mortgage insurance premium, debt service, working capital, operating deficit, and minor movables are required.

Prepayment and Assumption

2-year lockout followed by 8 years of declining pre-pay of 8%, 7%, 6%, 5%, 4%, 3%, 2%, and 1% (other terms may be negotiated). Loan is fully assumable subject to HUD approval.

Rate Lock Deposit

0.50% of mortgage amount collected at the time of client's acceptance of the Firm Commitment. The rate lock deposit will be fully refunded at the transaction closing.

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Third Party Reports

Market Study, Appraisal, Phase I Environmental Assessment, Phase II Environmental, Architectural Plan and Costs Review (completed by a HUD-approved Third-Party Contractor)

Mortgage Insurance Premium

0.25% each year during construction and **0.25%** annually.

HUD Application Fee

0.30% application fee (**0.15%** due at the pre-application stage for market-rate projects, and the other **0.15%** due at the time of Firm Application.

Absorption Period

The absorption period used is estimating market demand for proposed newly constructed or substantially rehabilitated units is 18 months.

Timing

Varies on the complexity of the transaction, but approximately **9** to **11** months.

LSG Lending Advisors is a private company and not a government agency. We are a capital markets advisory firm with expertise and relationships with lenders that are licensed to provide HUD-insured and agency financing for apartment buildings and multifamily developments. These terms and requirements are subject to change.

Contact us today for a free phone consultation: **216.645.9816**

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