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.