

HUD - 221(d)(4) - New Construction or Substantial Rehabilitation of Apartment Properties

ELIGIBLE PROPERTIES: Proposed new construction or substantial rehabilitation apartment properties. Market Rate Rents and Affordable Rents.

In order to qualify as a substantial rehabilitation project either (1) the cost of repairs, replacements and improvements exceeds the greater of 15% of the estimated replacement cost after completion of all repairs, or (2) \$6,500 per unit adjusted by the local HUD high cost percentage; or two or more building systems are being replaced.

LOAN TYPE: Construction and permanent loan.

MAXIMUM LOAN:

New Construction: Amount equal to the lesser of:

1. Statutory unit mortgage limits adjusted by cost not attributable to dwelling use; or
2. 90% of the HUD estimated replacement cost; or
3. 1.11 debt service coverage.

Substantial Rehabilitation Projects: Amount equal to the lesser of the three criteria above; or

1. 90% of the sum of the HUD estimated cost of repair and rehabilitation and the "as is" value of the property.

INTEREST RATES: Fixed rate determined by market rates at the time of rate lock.

AMORTIZATION: Construction loan which converts into a 40-year, fully amortizing loan.

PERSONAL RECOURSE: Non-recourse.

ASSUMABILITY: Assumable, subject to approval.

SUBORDINATE FINANCING: Generally not permitted, special requirements apply.

PREPAYMENT: Negotiable.

WAGE REQUIREMENTS: Adherence to Davis-Bacon prevailing wage laws is required.

ANNUAL MORTGAGE INSURANCE PREMIUM: During the construction period, the MIP is paid annually in advance, based on a rate established by HUD. The rate is fixed at initial endorsement. After commencement of amortization, the MIP is escrowed monthly based on the average principal balance.

ESCROWS: Monthly escrows for real estate taxes, property insurance, reserves for replacement (as determined by HUD) and mortgage insurance premiums.

COMMERCIAL SPACE: Up to 10% of the gross floor area of the project. Commercial income cannot exceed 15% of gross project income.

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ENVIRONMENTAL ISSUES: Special rules apply for properties that are located in Flood Hazard Zones as designated by FEMA. Phase I site assessment required.

APPLICATION FEE: A non-refundable fee of 0.3% of the requested mortgage amount is payable to HUD at the time of application, plus estimated underwriting costs for market study, appraisal, architectural/engineering report, cost analysis, environmental assessment and other loan processing costs.

INSPECTION FEE: For New Construction projects, 0.5% of the mortgage amount is payable to HUD at Initial Endorsement. For Sub-Rehabilitation Projects, 0.5% of the cost of improvements is paid to HUD at Initial Endorsement.

FINANCING AND PLACEMENT FEES: Negotiable.

LIHTC: Program can be used in conjunction with Low Income Housing Tax Credits.

BOND ENHANCEMENT: Program can be used to provide a AAA rating of tax exempt bonds.

CLOSING EXPENSES: Standard transaction costs, including legal fees, title insurance and survey.

BSPRA: Program permits the use of a Builders and Sponsors Profit and Risk Allowance for the partial fulfillment of the equity requirement of the loan.

OTHER HUD REQUIREMENTS: Cash escrows or letters of credit are required for the following:

1. Forecasted operating deficits, to be released one year after final endorsement if breakeven operations have been achieved.
2. 2% of the mortgage amount for working capital, to be released one year after project completion if loan is not in default.
3. 100% performance and 100% payment bond or a letter of credit equal to 15% or 25% (depending on structure type) of the construction contract.
4. If not covered by performance and payment bond, 2.5% of the construction contract amount as latent defects guarantee.
5. 100% of off-site construction costs.

HUD PROCESSING TIME: One or two stages for HUD Multifamily Accelerated Processing (MAP) procedures:

1. Pre-Application Stage: 45 days for review.
2. Firm Commitment Stage: 45 days for review.
3. One stage combining items 1 and 2 above: 60 days.

PRELIMINARY SUBMISSION PACKAGE: Include the following in your request for a loan quote:

- 1. Property description and location map.**
- 2. Number of units with breakdown of proposed rents by unit type.**
- 3. Pro forma operating budget, including breakdown of other income.**
- 4. Development cost estimate.**
- 5. Acquisition cost of land.**

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6. Sponsor resume.

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