

# FHA Mortgage Insurance Programs

## Section 221(d)(3)

### Apartment New Construction/Substantial Rehabilitation

(Non-Profit Borrowers)

**RED Mortgage Capital, LLC** is a leading FHA-approved Mortgagee and MAP/LEAN lender that actively underwrites, funds and services FHA insured mortgage loans for multifamily housing, seniors housing, assisted living and skilled care properties nationwide.

#### **PROGRAM PURPOSE:**

Provides mortgage insurance for the new construction and substantial rehabilitation of apartment projects, including independent living projects for seniors (age 62 years and older with no services). This program provides for both construction and permanent financing.

#### **ELIGIBLE BORROWERS:**

Non-profit and public owners only.

#### **ELIGIBLE ASSET TYPE:**

Market rate, affordable<sup>(1)</sup> or rental assisted<sup>(2)</sup> properties.

#### **MAXIMUM LOAN:**

Generally, the lesser of:

1. 95% of replacement cost;
2. The amount of debt that can be serviced by 90% of net operating income;
3. Statutory per unit limits;
4. 100% of mortgageable transaction costs less the portion of grants, public loans and tax credits applied to mortgageable costs.

#### **MAXIMUM TERM:**

40 years plus a construction period..

#### **OCCUPANCY:**

Maximum underwritten physical occupancy of 93% for affordable<sup>(1)</sup> properties. Maximum underwritten physical occupancy of 95% for rental assisted<sup>(2)</sup> properties, or properties where all units have rents at least 20% below comparable market rents.

#### **FUNDING:**

Qualifies for Ginnie Mae guaranteed mortgage-backed securities, direct placement or may be used to credit enhance tax-exempt bonds.

#### **INTEREST RATE:**

Subject to market conditions. The construction and permanent financing interest rate is set at initial closing.

#### **MORTGAGE INSURANCE PREMIUM:**

The annual MIP has historically ranged from 0.45% to 0.80% of the outstanding loan amount.

#### **PREPAYMENT:**

Typically closed for 2 years then open to prepayment at 108% in year 3, declining 1% per year. Other variations are possible based on market conditions and borrower preferences.

#### **APPLICATION:**

Applications must be submitted under MAP two-stage processing (pre-application/firm application). HUD may allow MAP one-stage processing for substantial rehabilitation of market rate properties that will not have (i) major unit reconfiguration, (ii) tenant displacement except for a short period of time, (iii) a reduction in current occupancy, (iv) negative cash flow, or (v) for properties in stable markets where an invitation letter recently expired. Affordable<sup>(1)</sup> or rental assisted<sup>(2)</sup> properties may utilize MAP one-stage processing.

#### **TIMING:**

Section 221(d)(3) processing usually takes about 5 to 7 months assuming a MAP one-stage application and about 8 to 10 months assuming a MAP two-stage application (subject to deal specifics).

#### **FHA APPLICATION FEES:**

0.30% of the loan amount (non-refundable). Affordable housing projects that submit for two-stage processing will not be charged a fee for pre-application review.

#### **FHA INSPECTION FEES:**

0.50% of loan amount (new construction).  
0.50% of costs associated with construction (substantial rehabilitation).

#### **REPLACEMENT RESERVES:**

Annual deposits required equivalent to the greater of (i) 0.60% of total structure cost for new construction or 0.40% of the loan amount for substantial rehabilitation, or (ii) \$250 per unit per annum. HUD may consider waivers where formula-based calculations exceed \$500 per unit per annum.

#### **PERSONAL LIABILITY:**

None. The FHA loan is non-recourse; however, identified principal(s) will be required to sign "Bad Boy" carve outs at closing.

**ASSUMABLE:**

Yes, subject to HUD and lender approval (0.05% of the original loan amount).

**SECONDARY FINANCING:**

Permitted in the form of residual receipts with HUD approval.

**BUILDER PROFIT:**

Industry standard.

**DEVELOPER FEE:**

Can include an 8% non-profit developer's fee (not less than \$40,000 or more than \$400,000, with exception for loans greater than \$5,000,000) which must be used for working capital, and can be used for transaction and operating costs.

**TERRITORY:**

Nationwide.

**THE PROGRAM HAS THE FOLLOWING ADDITIONAL PARAMETERS:**

- This program requires HUD Headquarters' approval of a mortgagor's non-profit status.
- Any profit or cash flow generated by the property remain in the property's residual receipts account.
- All transactions must participate in a concept meeting with HUD prior to application submittal.
- This program can be used in conjunction with Low Income Housing Tax Credits and is often used with properties that involve Section 202, Section 236 and Section 8 funding.
- Davis-Bacon prevailing wage requirements apply.
- A property generally qualifies as substantial rehabilitation when (i) the cost of repairs/improvements exceeds the greater of (1) 15% of the estimated replacement cost after completion of all repairs, or (2) \$6,500 per unit adjusted by the HUD high cost factor for the geographic region, or

(3) 20% of the mortgage proceeds applied to rehabilitation expenses or (ii) two or more building systems/components are being replaced along with any components with an estimated remaining life of less than 5 years.

- Properties must be able to demonstrate ability to achieve stabilized occupancy within 18 months of construction completion (special exception may be given to high rise buildings).
- An initial operating deficit escrow (cash or letter of credit) may be required to cover projected operating shortfalls incurred prior to project stabilization. Typically greater of (i) appraisal or underwriting conclusions, (ii) 4 months of debt service for garden apartments or 6 months of debt service for elevator buildings subject to single Certificate of Occupancy issuance. Loans in excess of \$25 million or 150 units have higher IOD requirements.
- A working capital deposit (cash or letter of credit) equivalent to 4% of the loan amount is required by HUD on all new construction projects to cover various costs; 2% of which will be a construction contingency for cost overruns and approved change orders. The working capital for substantial rehabilitation projects is only 2% of the loan amount as the development budget will have a separate construction contingency amount.
- Allowable commercial space is limited given the residential nature of this program.
- A Project Capital Needs Assessment (PCNA) will be required every 10 years.
- A schedule of real estate owned by principals is required and reviewed.

\*\*Terms outlined above reflect the Revised MAP Guide Effective 11/1/11\*\*

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For additional information visit [www.redcapitalgroup.com](http://www.redcapitalgroup.com) or contact:

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RED Mortgage Capital, LLC is a leading FHA-approved Mortgagee and MAP/LEAN lender and actively provides financing utilizing FHA insurance programs nationwide pursuant to Multifamily Accelerated Processing (MAP) and LEAN underwriting methods.

In its prequalifying review, RED Mortgage Capital, LLC will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.

<sup>(1)</sup> Affordable defined as: (a) properties that have a recorded regulatory agreement in effect for at least 15 years after final endorsement, (b) properties that meet at least the minimum Low Income Housing Tax Credit (LIHTC) restrictions of 20% of units at 50% of the Area Median Income (AMI), or 40% of units at 60% of AMI, with economic rents (i.e. portion paid by tenants) on those units no greater than LIHTC rents, and (c) mixed income properties if the minimum low income unit rent and occupancy restrictions and regulatory agreement meet the above criteria (i.e. properties need not use LIHTCs to be considered affordable so long as they comply with (a) and (b)).

<sup>(2)</sup> Rental assisted defined as: properties that have at least 90% of their units supported by a project based rental assistance contract.