

Apartment New Construction or Substantial Rehabilitation Financing FHA Section 221(d)(4) Program

ELIGIBLE PROPERTIES AND BORROWERS

Combined construction and permanent financing for the new construction or substantial rehabilitation of apartment projects. Profit motivated or non-profit borrowers.

UNDERWRITING

	Loan to Cost (LTC)	Debt Service Coverage Ratio
Market Rate	83.3%	1.20x
Affordable	87.0%	1.15x
Rental Assisted	90.0%	1.11x

Loan amounts are also subject to geographic statutory per unit Loan limitations. Loans over \$40M are subject to more stringent underwriting.

LOAN TERM AND AMORTIZATION

Maximum of 40 years, plus the construction period. Interest only during construction, fully amortizing over the term of the loan.

INTEREST RATES

Interest rates are fixed rate, level-pay for the term of the loan. The rate can be locked after HUD issues a Firm Commitment and before Initial Endorsement (Construction Loan Closing). Prepayment penalties and discounts vary depending on market conditions.

PREPAYMENT RESTRICTIONS

Determined by market conditions and loan structure. The lowest interest rate is typically available with 10 total years of call protection in the following structure:

- 2-year lock-out, open in year 3 with a prepayment penalty of 8%
- Prepayment penalty declines 1% per year thereafter
- Loan is open to prepayment without penalty after year 10

SECONDARY FINANCING

Permitted only if provided by a public source or if LTC is below 50% (primarily applicable in LIHTC transactions).

RECOURSE

The loan is non-recourse with the exception of carve-out provisions to the project's identified sponsors.

LOAN ASSUMABILITY

Assumable with EagleBank and HUD approval.

COMMERCIAL SPACE

Commercial space is allowable up to 10% of Gross Floor Area or 15% of underwritten revenue. The allowable percentage doubles if the project is located in an Urban Renewal Area, in which case the loan is processed under Section 220.

Contact An FHA Loan Specialist

Tony Washington

SVP, FHA Multifamily Lending
703.230.1548
AWashington@EagleBankCorp.com

Rich Devaney

SVP, FHA Multifamily Lending
703.230.1550
RDevaney@EagleBankCorp.com

Mike Somerville

SVP, FHA Multifamily Lending
703.230.1551
MSomerville@EagleBankCorp.com

Quinn Cullen

VP, FHA Multifamily Lending
703.230.1549
QCullen@EagleBankCorp.com

MORTGAGE INSURANCE PREMIUM

Mortgage Insurance Premium (MIP) is collected at closing and monthly thereafter. Annual MIP is based on outstanding Loan Amount and for the HUD fiscal year 2016 is:

- Initial premium based on Loan Amount
- 0.65% of Loan Amount for projects without Low Income Housing Tax Credits
- 0.45% of Loan Amount for projects with new Low Income Housing Tax Credits

REPLACEMENT RESERVE AND OTHER ESCROWS

- Annual deposits required calculated as the greater of:
 - \$250 per annum
 - 0.60% of construction cost for new construction
 - 0.40% of the loan amount for substantial rehabilitation
- Property insurance, real estate taxes, MIP

CONSTRUCTION CONTRACT CONSIDERATIONS

- Requires a bonded contractor. In lieu of bonding, cash or a letter of credit may be posted in the amount of either:
 - 15% of construction cost (3 stories or less)
 - 25% of construction cost (elevator buildings of 4 stories or more)
- Requires contractor retainage of 10%. Retainage percentage reduces to 5% after the project is 50% complete, and 2.5% at 75% completion.
- Requires payment of Davis-Bacon prevailing wages.
- 10 - 15% contingency is required for substantial rehabilitation.
- If an identity of interest exists between the owner and general contractor, in lieu of builder's profit, a non-cash Builder Sponsor Profit Risk Allowance (BSPRA) of 10% of construction and soft costs can be included in the eligible cost basis used for calculating the maximum Loan Amount.

FEES AND EXPENSES

- FHA Application fee - 0.30% of Loan Amount - payable to HUD
- FHA Inspection fee - 0.50% of Loan Amount (or total of rehab costs if substantial rehabilitation) - payable to HUD
- Mortgage Insurance Premium - payable to HUD
- Third-Party Reports
 - Appraisal
 - Market Study
 - Phase I ESA
 - Architectural and Cost Review
- Lender financing fee
- Good Faith Deposit - 0.50% paid at time of rate lock and fully refunded after closing

OTHER CONSIDERATIONS

- Maximum underwritten physical occupancy of 93% for Market Rate properties and 95% for Affordable or Rental Assisted properties.
- A PCNA is required every 10 years throughout the loan term.
- Loan to cost calculations exclude developer fees, initial operating deficit (minimum 3% of the Loan Amount), and a working capital deposit (minimum 4% of the Loan Amount).
- The market study and Lender underwriting must demonstrate that the projected unit absorption period is 18 months or less (high-rise projects excepted).
- Large projects (>250 units or >\$25MM in Loan Amount) will require HUD National Loan Committee approval and may be subject to more stringent underwriting parameters.

