



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

Eligible Properties: Combined construction and permanent financing for the new construction or substantial rehabilitation of apartment projects.

Eligible Borrowers: Profit motivated or non-profit borrowers.

Loan Amount:	Loan to	Debt Service
	Cost	Coverage
Market Rate	85%	1.176x
Affordable ¹	87%	1.150x
Rental Assisted ²	90%	1.111x

¹ Properties with Inclusionary Zoning, or 10%-90% LIHTC, or 10%-90% Section 8.

² Properties with 90% + LIHTC, or 90% + Section 8.

Loans over \$75M will have more stringent underwriting guidelines.

Loan amounts are also subject to geographic statutory per unit Loan limitations.

Loan Term: Maximum of 40 years, plus the construction period.

Loan Amortization: Interest only during construction, fully amortizing over the term of the Loan thereafter.

Interest Rate: Fixed for the term of the Loan, inclusive of the construction period. The interest rate is based upon market conditions at the time of rate lock. Government insurance ensures a low interest rate relative to other financing sources.

Prepayment Restrictions: Determined by market conditions and borrower needs. The lowest interest rate is typically available with 10 total years of call protection in the following structure: no lock-out, with a prepayment penalty of 10%, then the prepayment penalty declines 1% per year thereafter; the Loan is open to prepayment without penalty after year 10.

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

Mortgage Insurance Premium: Mortgage Insurance Premium (MIP) of 0.65% of the Loan Amount due annually for market rate transactions; 0.25% for Projects that qualify as Green/Energy Efficient; 0.25% for Projects with 90% or more affordable or rental assisted; 0.35% for all other affordable Projects. Such amounts are collected by EagleBank and then paid to HUD.

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

Replacement Reserve Escrows: Annual deposits required. Calculated as the greater of \$250 per annum, or i) 0.60% of construction cost for new construction ii) 0.40% of the Loan Amount for substantial rehabilitation.

Other Escrows: Property insurance, real estate taxes, MIP.



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

Loan Assumability: Assumable with EagleBank and HUD approval.

Fees and Expenses:

- FHA application fee – 0.30% of Loan Amount – payable to HUD.
- FHA inspection fee – 0.50% of Loan Amount (or of total rehab costs if substantial rehabilitation) – payable to HUD.
- Mortgage Insurance Premium – see previous page – 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 to EagleBank at the time of rate lock and fully refunded after closing.
- Other standard real estate transactional costs (legal, title, survey, etc.).

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: i) 15% of construction cost (3 stories or less), or ii) 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.
- A 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.

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.

For more information, please contact:

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