



## NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION FHA Section 241(a)

### ELIGIBLE PROPERTY TYPES

Existing multifamily projects with FHA-insured first mortgages wanting to make repairs, additions, or improvements

### ELIGIBLE BORROWERS

Single asset entities (*i.e. Individuals, limited liability companies, partnerships, trusts, private corporations, non-profit corporations, public bodies and cooperatives*)

### MAXIMUM LOAN AMOUNT

- 90% of the HUD-estimated cost of improvements, additions, or equipment (including the acquisition price of an adjacent or nearby land parcel)
- 1.11x combined Debt Service Coverage (*i.e.* combined supplemental and first mortgage payments), supported by 90% of projected NOI
- FHA's statutory per unit mortgage limits

### GENERAL LOAN TERMS

- Loan term is typically coterminous with the first mortgage
- Fixed interest rate for the term of the loan

- Typically a one or two-year lockout with a declining penalty through year 10 (negotiable); no yield maintenance
- Loan is non-recourse and assumable
- The supplemental and primary loans typically feature cross-default and cross-collateralization requirements
- Program can be used as credit enhancement for bond financing

### ESCROWS – CASH OR LETTER OF CREDIT

#### WORKING CAPITAL: 4% of mortgage amount

- 2%: Uses include initial marketing and rent-up, operating deficits in first operating year, shorts falls in taxes, interest, insurance and MIP.

Subject to HUD approval, the Lender may release any unused balance in the working capital portion of the escrow to the Borrower if the project is not in default and when the operations of the project have demonstrated to the Regional Production Director's satisfaction that the project has achieved six (6) consecutive months of sustaining occupancy.



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- 2%: New construction contingency used to fund necessary change orders.

Unused balance to be release at final endorsement subject to HUD approval.

**INITIAL OPERATING DEFICIT**

- Loans under \$25,000,000: The greater of 3% of mortgage or 4 months debt service if project is a garden apartment or 6 months debt service if property is an elevator where one CO will be issued.
- Loans \$25,000,000-\$75,000,000: 9 months debt service
- Loans over \$75,000,000: 12 months debt service

Unused balance will be released upon the Lender's request when the project has demonstrated to the Regional Production Director's satisfaction that the project has achieved six consecutive months of sustaining occupancy.