

# FHA/HUD SECTION 221(d)(4) MULTIFAMILY CONSTRUCTION OR SUBSTANTIAL REHABILITATION



**Eligibility** Multifamily rental apartments with a minimum of five (5) units with complete kitchens and baths. Properties may be market rate (any class) or affordable.

**Borrower** A single-asset, special purpose entity. Can be either for-profit or non-profit.

**Mortgage Term** 40 years plus construction period. Fully amortizing.

**Recourse** Non-recourse

Loan Parameters	Rent Type	LTC	Minimum DSCR
	Subsidized	90%	1.11x
	Affordable	87%	1.149x
	Market Rate	85%	1.176x

- Subsidized is defined as 90%+ units covered by a project-based Section 8 contract.
- Affordable is defined as a property with a minimum set aside in effect for at least 15 years post-closing.
- Loan amount cannot exceed HUD’s statutory per unit loan limits adjusted by high cost factor.
- Large loans above \$75 million may have more restrictive criteria.

**Interest Rate** Interest rate typically locked upon issuance of Firm Commitment. Rate is subject to market conditions at the time of rate lock. The rate is fixed for the term of the loan and interest-only during construction.

Mortgage Insurance Premium (MIP)	Based on a percentage of the outstanding mortgage amount and varies by program	
		Annually
	Market Rate	0.65%
	Green/Energy Efficient	0.25%
	Broadly Affordable	0.25%
	Affordable	0.35%

*Contact your Draper & Kramer HUD representative for green and affordable requirements*

**Prepayment** Fixed and negotiable; typically, the loan is closed for 2 years then open for prepayment at 8% and declining 1% per annum until open after Year 10.

**Assumption** Loan is fully assumable subject to HUD approval.

**Commercial Space** Allowable up to 25% of the net rentable area and limited to 15% of gross rental income.

**Davis Bacon Wages** Payment of prevailing wages is required. Wages are set by the Department of Labor.

**Non-Mortgageable Costs** Demolition, offsite or unusual site developments, and HUD Operating Deficit & Working Capital escrows are non-mortgageable.

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- FHA Application Fee** HUD requires a fee of 0.3% of the requested mortgage amount for the review of the Firm Commitment application (0.15% due at Pre-Application for two-stage processing).
- Escrows/Reserves** Prior to the construction period, HUD requires reserves of 4% for working capital (2% can be used for construction contingency), initial operating deficit, interest, taxes, and insurance. The balance of the reserves will be released to the borrower after six months of consecutive break-even operations. After the completion of construction, HUD requires a cash escrow for the replacement of short-lived items. Additionally, HUD requires monthly escrows for property insurance, real estate taxes and MIP. Escrows can be cash or letter of credit.
- FHA Inspection Fee** Inspection fees are 0.5% of mortgage for new construction and 0.5% of improvements for substantial rehabilitation. The inspection fee is payable at closing.
- Third Party Report Costs** The costs for third party reports, such as appraisal, property condition report, environmental reports and other organization costs may be included as mortgageable soft costs in the mortgage calculation.
- Closing Costs** Includes standard transaction costs such as the borrower’s legal fees, title insurance and survey.
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**For additional information on this or other lending products, please contact our experts:**

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