

# FHA/HUD SECTION 221(d)(4)

## MULTIFAMILY CONSTRUCTION

## OR SUBSTANTIAL REHABILITATION

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**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	90%	1.11x
Market Rate	87%	1.15x

- 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 \$130 million, higher DSCR and/or lower leverage apply.

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

**Mortgage Insurance**

**Premium (MIP)** 0.25% due at closing & annually for all properties.

**Prepayment** Fixed and negotiable; typically structured with 10 years of call protection using a 10-1 declining prepayment penalty, followed by open prepayment.

**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.

**FHA Application Fee** 0.30% application fee due upon submission to HUD. (½ due at Pre-Application and ½ due at Firm-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

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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.

<b>FHA Inspection Fee</b>	Inspection fees are 0.50% of mortgage for new construction and 0.50% of improvements for substantial rehabilitation. The inspection fee is payable at closing.
<b>Third Party Report Costs</b>	The costs for third party reports, such as appraisal, market study, environmental reports and other organization costs may be included as mortgageable soft costs in the mortgage calculation.
<b>Closing Costs</b>	Includes standard transaction costs such as the borrower's legal fees, title insurance and survey.
<b>Good Faith Deposit</b>	0.50% good faith deposit required at rate lock and refunded outside the loan at closing.

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