

FHA Section 231

# FHA Insured Senior Housing New Construction/Sub Rehab

## Section 231

Citi Community Capital (Citi), as a HUD approved Multifamily Accelerated Processing (MAP) lender, can arrange for FHA insured new construction/sub rehab financing under Section 231 of the National Housing Act for age restricted senior housing. HUD insured age restricted housing is composed of households where every household member is 62 years of age or older. MAP new construction/sub rehab senior housing underwriting is subject to the type of loan; i.e. market rate vs affordable LIHTC/rental assisted projects.

**Key Notes:** HUD has more favorable loan terms for rental assisted and affordable housing projects. Affordable projects are those that have a Use Agreement that restricts the projects rents and occupancy to income qualifying residents. To be considered a rental assisted property, the property must benefit from a project based rental assistance contract that covers 90% of the units or more. To be considered an affordable project, the Regulatory/Use Agreement must have at least 15 remaining years of restriction post-endorsement of the HUD note and meet at least the minimum Low Income Housing Tax Credit (LIHTC) restrictions of 20% of the units affordable at 50% of Area Median Income (AMI), or 40% of the units affordable at 60% of AMI, with tenant paid rents on those units no greater than LIHTC rents. Mixed Income properties qualify as affordable if the funding restrictions provide a Regulatory/Use Agreement and unit rent and occupancy restrictions that meet the LIHTC criteria.

### Minimum Rehab Costs

New Construction: average cost per unit cannot exceed HUD's statutory limit for the locality.

Sub Rehab: Repairs cost must exceed \$6,500 per unit; adjusted for HUD's high cost factor for the locality; or

15% of the "as rehabbed" appraised value; or

Replacement of at least two (2) major systems

### Property Types

Affordable and market rate multifamily housing

\*Does not include congregate, assisted living or skilled nursing

### Commercial Space

Up to 10% of gross floor area and up to 15% of potential gross income

### Max Loan Amount

Determined by the lowest of:

1. 85% (87% for affordable projects)

2. and 90% for project based rental assistance projects) of total eligible development costs; or
3. 1.176 debt service coverage ratio (1.15 for affordable projects and 1.11 for 90% rental assisted projects);
4. HUD's statutory mortgage limits for the locality
5. 100% of mortgageable transaction costs less grants, public loans, and tax credits applied to mortgageable costs

Loans over \$75M have slightly tighter underwriting requirements

### Occupancy Requirement

Minimum physical occupancy of 85% to qualify

Maximum 93% underwritten occupancy for market rate properties (97% for rental assisted and 95% for affordable)

### Term

Construction loan term (up to 24 months) plus 40-Year permanent loan

### Structure Highlights

Permanent Loan Rate locked at closing

Non-recourse construction loan

40 year term/amortization

Not constrained by value

More favorable underwriting for affordable and rental assisted projects

No separate RCS required for sub rehab of HUD 202 projects

Reduced MIP for affordable and energy efficient properties

### Amortization

Up to 40 years, or 75% of remaining useful life

### Funding

Ginnie Mae mortgage backed securities

### Loan Type

Construction/Sub Rehab and Permanent

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## Prevailing Wage Requirements

Davis-Bacon applies to both new construction and sub rehab

## Interest Rate Mode

One fixed rate, established after HUD issues the Firm Commitment to insure; no conversion event from construction to perm loan period

## Permanent Loan Conversion Requirements

No conversion or second closing

## Recourse

Non-recourse construction and permanent loan

Identified principals required to sign “Bad Boy” carve outs at closing

## Origination Fee

Negotiable

## HUD Application Fee

Non-refundable fee of \$3 per \$1,000 (30 bps) of the mortgage amount due to HUD with the firm commitment application. For market rate projects, HUD collects 50% of the fee (15pbs) upon submission of the pre-application package

## HUD Inspection Fee

New construction: 0.5% of the loan amount due at closing

Sub Rehab: 0.5% of the repair costs due at closing

## MIP

25 bps for LIHTC and Rental Assisted properties

35 bps for inclusionary housing, density bonus set-asides and other local affordability restrictions.

25 bps for green and energy efficient housing meeting certain independently verified standards.

65-70 bps for market rate properties  
One year pre-paid MIP due at closing

## Legal Fees

Borrower pays Lender’s fee and closing costs

## Pre-Development Third Party Reports

PNA, Market study, Appraisal, Architect/Cost Review, Environmental Phase I, Independent CPA “Reviewed” financial statements (for sub rehab)

## Prepayment

Subject to limitations. Traditionally 2 year lock-out and 8% declining to par in year 10

## Loan Security

First lien mortgage

## Assumption

With Citi and HUD approval and payment of \$15,000 processing fee

## Subordinate Financing

Subject to Citi and HUD guidelines

Includes seller carry back notes and governmental loans that are only payable through up to 75% of surplus cash

## Replacement Reserves

New construction: Reserves set by Citi and HUD; Citi minimum \$300 PUPA

Sub rehab: Reserves determined by PNA; HUD may reduce the deposit in certain circumstances

## Escrows

New construction: Working Capital Reserve (cash or letter of credit) funded at 4% of the loan amount (of which 2% is construction contingency)

Sub rehab: 2% of the loan amount (a separate working capital escrow is included in the development budget)

## Borrower

Must be a single asset entity

Must present a full REO schedule, along with plan for debt maturing within 5 years

## Limited Partners/Investors

Equity Investor acceptable to Citi and Equity Investor pay-in schedule acceptable to HUD; no less than 20% pay-in at closing and pari passu thereafter; exceptions can be made for the cost of acquisition (requires a waiver)

## Normal Processing Time

Varies by HUD office; 6 – 9 months depending upon the complexity of the project

All age restricted projects, except projects that have a rental assistance contract covering 90% of the units or more, must go to HUD’s National Loan Committee for approval

## Closing Conditions

HUD boilerplate forms with no modifications

Standard industry due diligence