FHA Insured New Construction/Sub Rehab for Urban Renewal

Section 220

Citi Community Capital (Citi) is a HUD approved Multifamily Accelerated Processing (MAP) lender and can arrange for FHA insured new construction/sub rehab financing under Section 220 of the National Housing Act for urban infill and renewal projects that are part of a Community Redevelopment Plan created by a locality. The project may include commercial space. MAP new construction/sub rehab 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 at 50% of Area Median Income (AMI), or 40% of the units 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.

**Property Types**
Multifamily housing projects located in urban renewal areas or HUD designated development areas (DDAs) that are part of a comprehensive Community Revitalization Plan developed by a locality.

New Construction or Sub Rehab: where repairs, replacements and improvements are greater than 15% of the estimated replacement cost after completion or $6,500 per unit (adjusted by high cost area) or the borrower is replacing 2 or more major building components.

**Project Types**
Affordable and market rate multifamily housing

*Does not include senior (age restricted), student housing or assisted living

**Commercial Space**
Up to 25% of the total net rentable area and up to 30% of potential gross project income

A commercial market study is required.

**Max Loan Amount**
Determined by the lowest of:

1. 90% of total eligible development costs for rental assisted projects (87% for affordable and 85% for market rate); or
2. 1.11 debt service coverage ratio for rental assisted projects (1.15 for affordable and 1.176 for market rate); or
3. HUD’s statutory mortgage limits for the locality; or

**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 plus 40-Year permanent loan

**Amortization**
Up to 40 years

**Funding**
Ginnie Mae mortgage backed securities

**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
Generous underwriting of pre-leased commercial space
Reduced MIP for affordable and energy efficient properties

**Loan Type**
Construction/Sub Rehab and Permanent

**Prevailing Wage Requirements**
Davis-Bacon applies to both new construction and sub rehab

**Interest Rate Mode**
Rate fixed at issuance of HUD Firm Commitment to insure; covers both construction and perm loan periods
Permanent Loan Conversion Requirements
Rate fixed at closing for both construction and perm loan periods.

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
Sub Rehab: 0.5% of the repair costs

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.
One year MIP pre-paid at closing.

Legal Fees
Borrower pays Lender’s fee and miscellaneous closing costs

Pre-Development Third Party Reports
PNA, Market study, Appraisal, Architect/Cost Review, Environmental Phase I, CPA reviewed financial statements

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 government sources

Replacement Reserves
New construction: Reserves set by Citi and HUD
Sub rehab: Reserves determined by PCNA; HUD may reduce the annual 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

Closing Conditions
HUD boilerplate forms with no modifications
Standard industry due diligence

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