ARMSTRONG MORTGAGE COMPANY
SERVING THE REAL ESTATE INDUSTRY FOR OVER 40 YEARS

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FHA MORTGAGE INSURANCE PROGRAMS
Section 221(d)(4)
Apartment New Construction/Substantial Rehabilitation
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Armstrong Mortgage Company is an FHA-approved Mortgagee and MAP/LEAN lender and actively provides financing utilizing FHA insurance programs pursuant to Multifamily Accelerated Processing (MAP) and LEAN underwriting methods.

Program Purpose: Provides mortgage insurance for the new construction and substantial rehabilitation of apartment projects, including independent living projects for seniors (age 62 years and older). This program provides for both construction and permanent financing.

Eligible Borrowers: Profit motivated single purpose entities (a non-profit can be the general partner of a profit motivated single purpose ownership entity).

Eligible Asset Type: Market rate, affordable*, or rental assisted properties**.

***affordable** – defined as (a) projects with recorded regulatory agreement 15 yrs. from final endorsement; (b) projects that meet at least the minimum Low Income Housing Tax Credit restrictions of 20% of units at 50% of the AMI, or 40% of units at 60% of AMI, with economic rents on those units no greater than LIHTC rents; and (c) mixed income properties if the minimum low income unit rent and occupancy restrictions and regulatory agreement meet the above criteria.

****rental assisted** – defined as properties that have at least 90% of their units supported by a project based rental assistance contract.

Maximum Term: 40 years plus the construction period.

Maximum Loan: The lesser of:

1. 83.3%, 87%, or 90% of replacement cost for market rate, affordable, or rental assisted properties, respectively;
2. The amount of debt that can be serviced by 83.3%, 87%, or 90% of net operating income for market rate, affordable or rental assisted properties, respectively;
3. Statutory per unit limits;
4. 100% of mortgageable transaction costs less grants, public loans and tax credits

Occupancy: Maximum underwritten physical occupancy of 93% for market rate or affordable properties. Maximum underwritten physical occupancy of 95% for rental assisted properties, or properties where all units have rents at least 20% below comparable market rents.

Interest Rate: Subject to market conditions. The construction and permanent financing interest rate is set at initial closing.

Mortgage Insurance Premium: The annual MIP is .65% of the outstanding loan amount (.45% for LIHTC deals)

Prepayment: Locked for 2 years then open to prepayment at 108% in year 3, declining 1% per year. Other variations are possible based on market conditions and borrower preferences.

Funding: Qualifies for Ginnie Mae insured mortgage-backed securities, direct placement or may be used to credit-enhance tax-exempt bonds.

Application:	Market rate applications must be submitted under MAP two-stage processing – pre-application and firm. HUD may allow MAP one-stage processing for substantial rehabilitation of market rate properties that will not have major unit reconfiguration, tenant displacement except for a short time period, reduction in current occupancy, negative cash flow, or for properties in stable markets where an invitation letter recently expired. Affordable or rental assisted properties may utilize MAP one-stage processing.
Timing:	Section 221(d)(4) processing usually takes about 6 months assuming a MAP One Stage application and about 8 months assuming a MAP Two Stage application.
FHA Application Fees:	0.30% of the loan amount (non-refundable). Market rate transactions will require the payment of a non-refundable 0.15% review fee due at pre-application submittal. The review fee will be credited toward the 0.30% application fee due at firm application submittal.
FHA Inspection Fees:	0.50% of loan amount (new construction). 0.50% of costs associated with construction (sub rehab).
Replacement Reserves:	Annual deposits required equivalent to the greater of 0.60% of the total structure cost for new construction or 0.40% of the loan amount for substantial rehabilitation, or $250 per unit per annum. HUD may consider waivers where formula-based calculations exceed $500 per unit per annum.
Personal Liability:	None. The FHA loan is non-recourse; however, one (1) individual will be required to be identified as key principal for signatory provisions of standard bad boy carve-outs.
Assumable:	Yes, subject to HUD and Lender approval. Assumption fee 0.05% of the original loan amount applies.
Secondary Financing:	Permitted in the form of a surplus cash note and only from a governmental source. LIHTC deals with less than 50% of cost mortgages can also carry secondary financing.
Builder's /Developer's Profit:	A Builder's and Sponsor's Profit and Risk Allowance (BSPRA) equal to 10% of all costs other than land can be utilized for sponsors with identity of interest general contractor.

The program has the following additional parameters:

a. Streamlined processing is available for loans involving LIHTCs and is often used with projects that involve Section 202, Section 236 and Section 8 funding.
b. Parties must participate in a concept meeting with HUD prior to application being submitted.
c. Davis-Bacon prevailing wage requirements apply.
d. A project generally qualifies as substantial rehabilitation when:
   - the cost of repairs/improvements exceeds the greater of 15% of the estimated replacement cost after completion of all repairs, or
   - $6,500 per unit adjusted by the HUD high cost factor for the geographic region; or
   - two or more building systems are being replaced along with any systems with an estimated remaining life of less than 5 years.
e. Properties must be able to demonstrate ability to achieve stabilized occupancy within 18 months of construction completion.
f. An Initial Operating Deficit Escrow (cash or letter of credit) may be required to cover operating shortfalls. IODs are 3% of the loan amount, 4 mos. of debt service for garden apartments or 6 mos. of debt service for elevator buildings. Loans in excess of $25 million or 250 units have higher requirements.
g. A Working Capital Deposit (cash or letter of credit) equivalent to 4% of the mortgage amount is required by HUD on all new construction. Substantial rehabilitation projects are 2%.
h. Commercial space is permitted up to certain guidelines.
i. A Schedule of Real Estate is required by principals.
j. A Project Capital Needs Assessment will be required every 10 years.

For further information please contact:

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