
FHA SECTION 221(d)(3) INSURED MORTGAGE
Financing for Multifamily Properties with Non-profit Sponsors

PURPOSE	Construction <i>and</i> Permanent financing for new construction or substantial rehabilitation of existing multifamily rental properties with non-profit owners. This program provides long-term, fixed-rate, fully amortized and fully assumable non-recourse financing for single asset <i>non-profit</i> entities.
PROPERTY TYPES	To-be-built projects and/or properties that are being refinanced or acquired which require substantial rehabilitation. Commercial areas are permitted based on FHA guidelines.
PROPERTY QUALITY	A wide range is permitted, however, underwriting will be adjusted for perceived risk due to age or obsolescence for existing properties. Facilities resembling retirement service centers for independent elderly do not qualify. No “founder’s fees” or similar charges or fees are permitted. Facilities must have a certificate of need (CON) at the time of application, if required by the state.
LOAN TERM	Construction period plus a 40-year permanent loan, fully amortizing.
NOTE RATE	Low rates fixed at construction loan closing for life of loan, based on market conditions.
LOAN AMOUNT	\$3,500,000 minimum. No maximum.
UNDERWRITING	<p>New Construction – The maximum insured mortgage for non-profit mortgagors will be the lesser of:</p> <ul style="list-style-type: none">■ The amount that can be supported with debt service at 95% of the net annual operating income, or;■ 100% of the estimated replacement cost, or;■ Statutory per unit mortgage maximum. <p>Rehabilitation – The maximum insured mortgage for non-profit mortgagors will be the lesser of:</p> <ul style="list-style-type: none">■ The amount that can be supported with debt service calculated at 95% of net annual operating income, or;■ 100% of the estimated eligible rehabilitation costs plus the lesser of “as is value” or outstanding debt, or;■ Statutory per unit mortgage maximum.
ORIGINATION FEES	A total of 3.5% can be included in the mortgage costs to pay Origination and Funding fees for both the construction and permanent loans. An additional 2% can be included for bond transactions. Actual fees are negotiated on a case by case basis depending on the size and complexity of the transaction and the experience of the Borrower.

HUD FEES

Application Fee – equal to 0.03% of the requested loan amount, which is due and payable when application is ready to be delivered to HUD.

Inspection Fee – equal to 0.05% of the loan amount, which is due and payable at construction loan closing.

Annual Mortgage Insurance Premium – equal to 1% of the outstanding loan amount for the first year, 0.45% of the loan amount per year thereafter (with or without LIHTC) (or such other amount in effect at the time the firm commitment is issued by HUD). First payment is due and payable at construction loan closing and is payable from mortgage proceeds.

SECONDARY FINANCING

Secondary financing from federal, state or local government entities (national, regional or local non-profit foundation) or for-profit entities. The secondary debt may be secured by a lien subordinate to the first mortgage. Repayment is available from up to 50% of surplus cash.

PREPAYMENT

Negotiable, depending on market conditions and interest rate required. Typically based on a 5-year lockout with a prepayment penalty of 5% beginning the 6th year and declining 1% per year through the 10th year. No yield maintenance.

ASSUMABILITY

Fully assumable with prior FHA approval.

LIABILITY

Debt is non-recourse including the construction loan.

OTHER PROGRAM FEATURES

FHA insurance provides credit enhancement for tax-exempt financing. Non-profit mortgagors are eligible for:

- Non-profit developer's fee based on a sliding scale;
 - 8% of the mortgage, but not less than \$40,000 nor more than \$400,000 for a \$5,000,000 mortgage.
 - For mortgages in excess of \$5,000,000, maximum fee is increased by 2% of the mortgage that is in excess of \$5,000,000.
- The use of a lump sum construction contract where no identity of interest exists with the contractor.
- Rents permissible are the lesser of market or those necessary to cover all expenses and provide permitted return on equity of up to 6%.

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