



## FHA/HUD Mortgage Insurance Program – Section 221(d)4 – New Construction and Substantial Rehabilitation of Multifamily Properties

- Purpose:** Long-term, low, fixed interest rate financing for the new construction and substantial rehabilitation of multifamily properties. Fully assumable, subject to lender & HUD approvals.
- Eligible Properties:** Market rate, affordable, and subsidized multifamily properties. HUD defines substantial rehabilitation as projects replacing two or more major building systems or where the rehab costs exceed \$19,998/unit (adjusted for the local high-cost factor, typically 190%-270%). Borrowers can be for-profit or not-for-profit but must be a single asset borrower entity.
- Commercial Space:** Limited to 25% of total net rentable area and 15% of effective gross income. In qualified urban renewal areas, this can increase to 25% of net rentable area and 30% of effective gross income via HUD’s Section 220 program.
- Guarantees:** Non-recourse, including during the construction period.
- Loan Term & Amortization:** Maximum of 40 years. Interest-only during the construction period, then fully amortizing.
- Interest Rate:** Determined by market conditions; fixed for the full term of the loan.

**Loan Parameters & MIP:**

Property Type	Max LTC	Min DSCR	Initial and Annual MIP
Market Rate	87%	1.15	0.25%
Middle Income (50% of units targeted for tenant income levels up to 120% AMI)	90%	1.11	0.25%
Affordable (generally defined as 40% of units at 60% AMI or 20% of units at 50% AMI for at least 15 years)	90%	1.11	0.25%
Subsidized (at least 90% of units covered by project-based Section 8 contract for at least 15 years)	90%	1.11	0.25%

- Davis-Bacon Wages:** Required for all contractors and subcontractors
- Pre-Payment:** Negotiable, but typically no lockout and an annual 10 step declining pre-payment penalty.
- Lender Financing Fee:** Deal specific, based on size and complexity of transaction.
- HUD Application Fee:** 0.3% of the loan amount. 0.15% due at pre-application stage, 0.15% due at firm application stage.
- HUD Inspection Fee:** 0.5% of loan amount for new construction or 0.5% of total improvements for sub-rehab
- Third-Party Reports:** Appraisal, Market Study, PCNA, Phase I ESA (including radon testing), and Architectural & Cost Analysis
- Escrows/Reserves:** Standard tax, insurance, and MIP escrows;  
 Replacement Reserves: Initial deposit and minimum annual deposit of \$250/unit  
 Initial Operating Deficit: 4-12 months of debt service payments  
 Working Capital: 4% for new construction, 2% for sub-rehab.
- Timing:** Generally 9-12 months from application to closing – dependent on borrower responsiveness and HUD pipelines.