

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

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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