

FHA and USDA NEW CONSTRUCTION & SUBSTANTIAL REHABILITATION PROGRAMS

Overview of 221(d)(4) and 221(d)(3)	Insured mortgages may be used to finance the construction or rehabilitation of detached, semidetached, row, walkup, or elevator-type rental or cooperative housing containing 5 or more units. The program has statutory mortgage limits which vary according to the size of the unit, the type of structure, and the location of the project. The principal difference between the (d)(3) and (d)(4) programs is the amount of insured mortgage available to non-profit and profit motivated sponsors. Under Section 221(d)(3), nonprofit sponsors or cooperatives may receive an insured mortgage up to 100 percent of HUD/FHA estimated replacement cost of the project. Profit motivated sponsors using Section 221(d)(4) and all types of sponsors under Section 221(d)(4) can receive a maximum mortgage of 90 percent of the HUD/FHA replacement cost estimate. Contractors for new construction and substantial rehabilitation projects must comply with prevailing wage standards under the Davis-Bacon Act. Section 221(d)(3) mortgages require appropriated credit subsidy, which is limited.
Overview of 220	Insured mortgages may be used to finance construction or rehabilitation of detached, semi-detached, row, walk-up, or elevator type rental housing or to finance the purchase of properties which have been rehabilitated by a local public agency. Properties must consist of two or more units and must be located in an urban renewal area, in an urban development project, code enforcement program area, urban area receiving rehabilitation assistance as a result of natural disaster, or area where concentrated housing, physical development, or public service activities are being carried out in a coordinated manner.
USDA	Insured mortgages may be used to finance construction or rehabilitation of detached, semi-detached, row, walk-up, or elevator type rental housing or to finance the purchase of properties which have been rehabilitated by a local public agency. Properties must consist of two or more units and must be located in an area that has 20,000 or less people. , or public service activities are being carried out in a

	220	221(d)(3)	221(d)(4)	USDA 538
Program Summary	New construction or substantial rehab	New construction or substantial rehab for eligible non-profit (501c3) borrower This program requires HUD Headquarters' approval of a mortgagor's non-profit status.	New construction or substantial rehab	New construction or substantial rehab
Substantial Rehab Requirements	Rehab/repair work must meet one of the following: -Amount of work exceeds \$6,500 per unit (adjusted for local high cost factor) -Amount of work equals or exceeds 15% of the "as rehabbed" replacement cost value -At least 51% of two or more building systems being replaced	Rehab/repair work must meet one of the following: -Amount of work exceeds \$6,500 per unit (adjusted for local high cost factor) -Amount of work equals or exceeds 15% of the "as rehabbed" replacement cost value -At least 51% of two or more building systems being replaced	Rehab/repair work must meet one of the following: -Amount of work exceeds \$6,500 per unit (adjusted for local high cost factor) -Amount of work equals or exceeds 15% of the "as rehabbed" replacement cost value -At least 51% of two or more building systems being replaced	Rehab/repair work must meet one of the following: -Amount of work exceeds \$6,500 per unit (adjusted for local high cost factor) -Amount of work equals or exceeds 15% of the "as rehabbed" replacement cost value -At least 51% of two or more building systems being replaced
Eligible Property Types	Affordable or market rate multifamily projects in urban renewal, concentrated development area or Housing Enterprise Zone.	Affordable or market rate multifamily projects with 5 or more units.	Affordable or market rate multifamily projects with 5 or more units	Affordable or market rate multifamily projects with 5 or more units. Must be in an area that has 20,000 or less population.
Commercial Space / Commercial Income	Maximum 20% gross floor space of project. Commercial income cannot exceed 30% of gross project income	Maximum 10% gross floor space of project. Commercial income cannot exceed 15% of gross project income	Maximum 10% gross floor space of project. Commercial income cannot exceed 15% of gross project income	Negotiated
Construction Period	Up to 36 months	Up to 36 months	Up to 36 months	Up to 36 months
Permanent Loan Term	40 years following conversion to perm. Loan term for substantial rehab projects cannot exceed 75% of estimated remaining economic life.	40 years following conversion to perm. Loan term for substantial rehab projects cannot exceed 75% of estimated remaining economic life.	40 years following conversion to perm. Loan term for substantial rehab projects cannot exceed 75% of estimated remaining economic life.	40 years following conversion to perm. Loan term for substantial rehab projects cannot exceed 75% of estimated remaining economic life.
Amortization	No amortization during construction. Permanent loan is fully amortizing	No amortization during construction. Permanent loan is fully amortizing	No amortization during construction. Permanent loan is fully amortizing	No amortization during construction. Permanent loan is fully amortizing
Maximum Loan	Loan amount determined by lowest of: - 90% of eligible development costs - Statutory mortgage limits - 1.11 debt service coverage	Loan amount determined by lowest of: - 100% of eligible development costs - Statutory mortgage limits - 1.05 debt service coverage	Loan amount determined by lowest of: - 90% of eligible development costs - Statutory mortgage limits - 1.11 debt service coverage	Loan amount determined by lowest of: - 90% of eligible development costs - 90% of appraised value - 1.15 debt service coverage

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221(d)(3)

221(d)(4)

USDA 538

Interest Rate	Fixed Rate via Ginnie Mae MBS or whole loan. May also be used for credit enhancement	Fixed Rate via Ginnie Mae MBS or whole loan. May also be used for credit enhancement	Fixed Rate via Ginnie Mae MBS or whole loan. May also be used for credit enhancement	Fixed Rate via Ginnie Mae MBS or whole loan. May also be used for credit enhancement
Prepayment	No prepayment during construction/rehab period. Perm loan has 5 year lockout with declining percentage for next 5 years (5-4-3-2-1) then open	No prepayment during construction/rehab period. Perm loan has 5 year lockout with declining percentage for next 5 years (5-4-3-2-1) then open -Prepayment subject to HUD's prior approval	No prepayment during construction/rehab period. Perm loan has 5 year lockout with declining percentage for next 5 years (5-4-3-2-1) then open	No prepayment during construction/rehab period. Perm loan has 5 year lockout with declining percentage for next 5 years (5-4-3-2-1) then open
Assumable	Assumable	Assumable	Assumable	Assumable
Recourse	Nonrecourse	Nonrecourse	Nonrecourse	Nonrecourse
Borrower	Single Asset Entity	Qualified non-profit / 501(c)(3) Single Asset Entity	Single Asset Entity	Single Asset Entity
Bedford Lending Fees / Costs				
Application Deposit	\$5,000	\$5,000	\$5,000	\$5,000
Expense Escrow	Sufficient to cover 3rd party services	Sufficient to cover 3rd party services	Sufficient to cover 3rd party services	Sufficient to cover 3rd party services
Origination Fees	Negotiable. HUD permits up to 3.50%	Negotiable. HUD permits up to 3.50%	Negotiable. HUD permits up to 3.50%	Negotiable. HUD permits up to 3.50%
Required Reports	-Market Study and Appraisal -Architect Review of Plans and Cost Review -Phase I / Environmental Report -Geotechnical / Foundation Analysis, if required	-Market Study and Appraisal -Architect Review and Cost Estimate -Phase I / Environmental Report -Geotechnical / Foundation Analysis, if required	-Market Study and Appraisal -Architect Review and Cost Estimate -Phase I / Environmental Report -Geotechnical / Foundation Analysis, if required	-Market Study and Appraisal -Architect Review and Cost Estimate -Phase I / Environmental Report -Geotechnical / Foundation Analysis, if required
Underwriting Parameters				
Gross Income	Proforma rents approved by HUD at Pre-App stage. Based on appraisal and Bedford Lending underwriting of rents for similar projects at the time of processing.	Proforma rents approved by HUD at Pre-App stage. Based on appraisal and Bedford Lending underwriting of rents for similar projects at the time of processing.	Proforma rents approved by HUD at Pre-App stage. Based on appraisal and Bedford Lending underwriting of rents for similar projects at the time of processing.	Proforma rents approved by HUD at Pre-App stage. Based on appraisal and Bedford Lending underwriting of rents for similar projects at the time of processing.
Vacancy	Minimum 5%. Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market vacancy for similar projects	Minimum 5%. Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market vacancy for similar projects	Minimum 5%. Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market vacancy for similar projects	Minimum 5%. Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market vacancy for similar projects
Other Income	Equipment rental, vending machines, pet fees, pool fees, cable fees and forfeited security deposits. Must be common in market. Interest income prohibited	Equipment rental, vending machines, pet fees, pool fees, cable fees and forfeited security deposits. Must be common in market. Interest income prohibited	Equipment rental, vending machines, pet fees, pool fees, cable fees and forfeited security deposits. Must be common in market. Interest income prohibited	Equipment rental, vending machines, pet fees, pool fees, cable fees and forfeited security deposits. Must be common in market. Interest income prohibited
Expenses	Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of expense comparables	Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market expense levels	Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market expense levels	Approved by HUD at Pre-App stage based on appraisal and Bedford Lending underwriting of market expense levels
Replacement Reserves	Combination of initial deposit (rehab) and monthly deposits following construction/rehab period is calculated as follows (minimum \$150/unit): -New Construction: .006 x total structure cost -Sub Rehab: .004 x mortgage amount	Combination of initial deposit (rehab) and monthly deposits following construction/rehab period is calculated as follows (minimum \$150/unit): -New Construction: .006 x total structure cost -Sub Rehab: .004 x mortgage amount	Combination of initial deposit (rehab) and monthly deposits following construction/rehab period is calculated as follows (minimum \$150/unit): -New Construction: .006 x total structure cost -Sub Rehab: .004 x mortgage amount	Combination of initial deposit (rehab) and monthly deposits following construction/rehab period is calculated as follows (minimum \$150/unit): -New Construction: .006 x total structure cost -Sub Rehab: .004 x mortgage amount
FHA Fees				
Application Fee	30bps of loan amount paid to HUD at Firm Commitment submission	30bps of loan amount paid to HUD at Firm Commitment submission	30bps of loan amount paid to HUD at Firm Commitment submission	
Inspection Fee	50bps of loan amount paid to HUD at Initial Endorsement	50bps of loan amount paid to HUD at Initial Endorsement	50bps of loan amount paid to HUD at Initial Endorsement	
Mortgage Insurance Premium (MIP)	50bps of loan amount paid to HUD annually. Commences at Initial Endorsement (prorated for construction/rehab period)	80bps of loan amount paid to HUD annually. Commences at Initial Endorsement (prorated for construction/rehab period)	45bps of loan amount paid to HUD annually. Commences at Initial Endorsement (prorated for construction/rehab period)	

Other FHA Requirements	Escrows Operating Deficit Escrow Audit Other	Funded monthly for real estate taxes, insurance, replacement reserves and MIP Cash or letter of credit based on lease-up projection and estimated achievement of breakeven operations HUD requires an annual property audit. Audit requirements not significantly greater than conduit or life insurance co. Can be submitted via Internet	Funded monthly for real estate taxes, insurance, replacement reserves and MIP Cash or letter of credit based on lease-up projection and estimated achievement of breakeven operations HUD requires an annual property audit. Audit requirements not significantly greater than conduit or life insurance co. Can be submitted via Internet Management agent must also be a non-profit entity	Funded monthly for real estate taxes, insurance, replacement reserves and MIP Cash or letter of credit based on lease-up projection and estimated achievement of breakeven operations USDA requires an annual property audit. Audit requirements not significantly greater than conduit or life insurance co. Can be submitted via Internet
Construction Requirements	Working Capital Performance / Payment Bond Latent Defects Guarantee Other	Cash escrows or letters of credit required for the following: Amount equal to 2% of the loan amount. Released one year after project completion 100% bond for performance and payment or letter of credit for 15%-25% of the construction contract Amount equal to 2.5% of the construction contract (if latent defects not covered by performance / payment bond) 100% of off-site construction and demolition (if applicable) costs paid outside of the mortgage	Cash escrows or letters of credit required for the following: Amount equal to 2% of the loan amount. Released one year after project completion 100% bond for performance and payment or letter of credit for 15%-25% of the construction contract Amount equal to 2.5% of the construction contract (if latent defects not covered by performance / payment bond) 100% of off-site construction and demolition (if applicable) costs paid outside of the mortgage	Cash escrows or letters of credit required for the following: 2% Operating Maintenance Reserve 2% Initial Operating Capital Reserve 2% Construction Contingency 100% of off-site construction and demolition (if applicable) costs paid outside of the mortgage
	Davis Bacon Act	Contractors must adhere to the Davis Bacon prevailing wage requirements	Contractors must adhere to the Davis Bacon prevailing wage requirements	N/A
Screening Documentation		Submit the following for a quote/financing proposal: -Property description with location map -Unit mix with rents and square footage -Current rent roll and 6 month occupancy history (for existing projects) -Proforma income and expense budget (or 3 years operating history for existing projects) -Development / construction cost estimate -Details of land or project acquisition costs -Resume(s) of borrower/sponsor	Submit the following for a quote/financing proposal: -Property description with location map -Unit mix with rents and square footage -Current rent roll and 6 month occupancy history (for existing projects) -Proforma income and expense budget (or 3 years operating history for existing projects) -Development / construction cost estimate -Details of land or project acquisition costs -Resume(s) of 501(c)(3) borrower/sponsor	Submit the following for a quote/financing proposal: -Property description with location map -Unit mix with rents and square footage -Current rent roll and 6 month occupancy history (for existing projects) -Proforma income and expense budget (or 3 years operating history for existing projects) -Development / construction cost estimate -Details of land or project acquisition costs -Resume(s) of borrower/sponsor