

# HUD 221(d)(4) Loan Program



Copyright 2016 Bedford Lending

# *Who is Bedford Lending?*

Company formed in 1991

Headquartered in Bedford, N.H. with 5 offices nationwide, family owned

Approved to finance Apartment, Healthcare, and Hospital loans

Management averages 30 years commercial experience

Maintains HUD highest designations –MAP and LEAN Approved

Direct FHA and USDA Lender

Certified to underwrite HUD loans Nationwide

Has closed over \$2 billion in loans

## *221(d)(4)*

The HUD 221 (d)(4) program provides construction and permanent financing for new construction and substantial rehabilitation for multifamily and senior housing (62 and older without services) properties.

Construction work on an acquisition or existing facility is generally considered “substantial rehab” when more than \$35,000 per unit in work is being completed, or at least half of two major building systems (plumbing, electrical, etc) are being replaced.

## *Finance Opportunities*

- New Construction
- Acquisition and Substantial rehab of existing apartment buildings
- Repositioned properties (i.e. office, retail, municipal, mill)
- Blanket Properties that need renovation
- Senior Housing – 62 and Older
- Single Room Occupancy (Rooming House)

*Potential Equity Sources that we can use with  
the program*

- Historical Tax Credits
- 4 & 9% Low Income Tax Credits
- New Market Tax Credits
- TIF Funds
- Tax Abatements
- CDB Grants
- Other public grants
- Entitled land value
- Builders profit credit

## *Type of Tenants*

- A common myth is that the property must offer reduced rents or subsidies to qualify for the program. **This is not accurate.** Properties can be:
- 100% market rate
- 100% subsidized (Section 8 Vouchers and HAP Contracts)
- 100% rent restricted (LIHTC)
- A combination of the above.

## *Program Benefits*

- Maximum 40 Year Loan
- Fixed rate for life of loan (see following chart)
- 85-90 % Financing
- Can blend program with tax credits or grants to secure **100% financing.**
- Fixed Rate during construction period
- Tenants can be market rate rents, subsidized or a combination
- Non-Recourse financing from Day 1

## *Program Benefits (con't)*

- Interest Carry Cost is built into the Loan
- One closing – Construction loan converts to permanent financing. This eliminates interest rate risk and multiple fees. Also removes risk of loan being re-sized if actual rents are less than proforma rents.
- Assumable
- Allow commercial income - 25% of net rentable area and 15% of effective gross income.
- Builder can credit profit towards borrower's equity requirement
- Recognize entitled value of land
- Soft costs are MORTGAGABLE



## *Bank vs HUD financing*

	<b>Bank</b>	<b>HUD</b>
Loan to Value	70-75%	90% of Construction Cost (if using BSPRA)
Amortization	25-30 Years	40 Years
Fixed Rate Term	Banks typically will lock in a variable rate for 2 years to cover the construction period and fillup period, and then will lock-in the rate at the beginning of the 3rd year.	Rate is locked-in at time of closing for 40 years, and there is only one closing.
Interest Rate	Higher than HUD	Lower than bank because HUD paper is AAA
Note Modification	Generally does not allow.	Allowed
ROI		Higher with HUD due to amortization and lower rate.
Collateral	First mortgage on subject	Only requires first mortgage on subject property.
Assumable	No	Yes
One Closing	No	Yes
Cash Flow		Better with HUD
Recourse	Yes	Non-Recourse

## *HUD and Short Term Bonds – 100% Financing*

Our HUD program can be blended with short term bonds to provide **over 100%** financing. Under the structure, the borrower agrees to reduce rents in return for an up-front Developer's Fee and a large amount of equity. The tax credits often exceed 30% of the development cost.

### How it Works?

- Upon receipt of construction budget and proforma, BLC will complete a HUD/Tax Credit analysis detailing the economic benefits of the transaction.
- BLC schedules a meeting with Bond Syndicator and client to discuss the Bond process.
- BLC details steps and timeline to client.
- BLC presents loan to local HUD office to secure pre-approval prior to commencing with the loan process.
- BLC provides weekly updates with client and manages the HUD and Bond underwriting process.
- BLC secures HUD commitment letter and works closely with Bond underwriter to secure Bond approval.
- Close loan.

## *HUD and Short Term Bonds – 100% Financing (con't)*

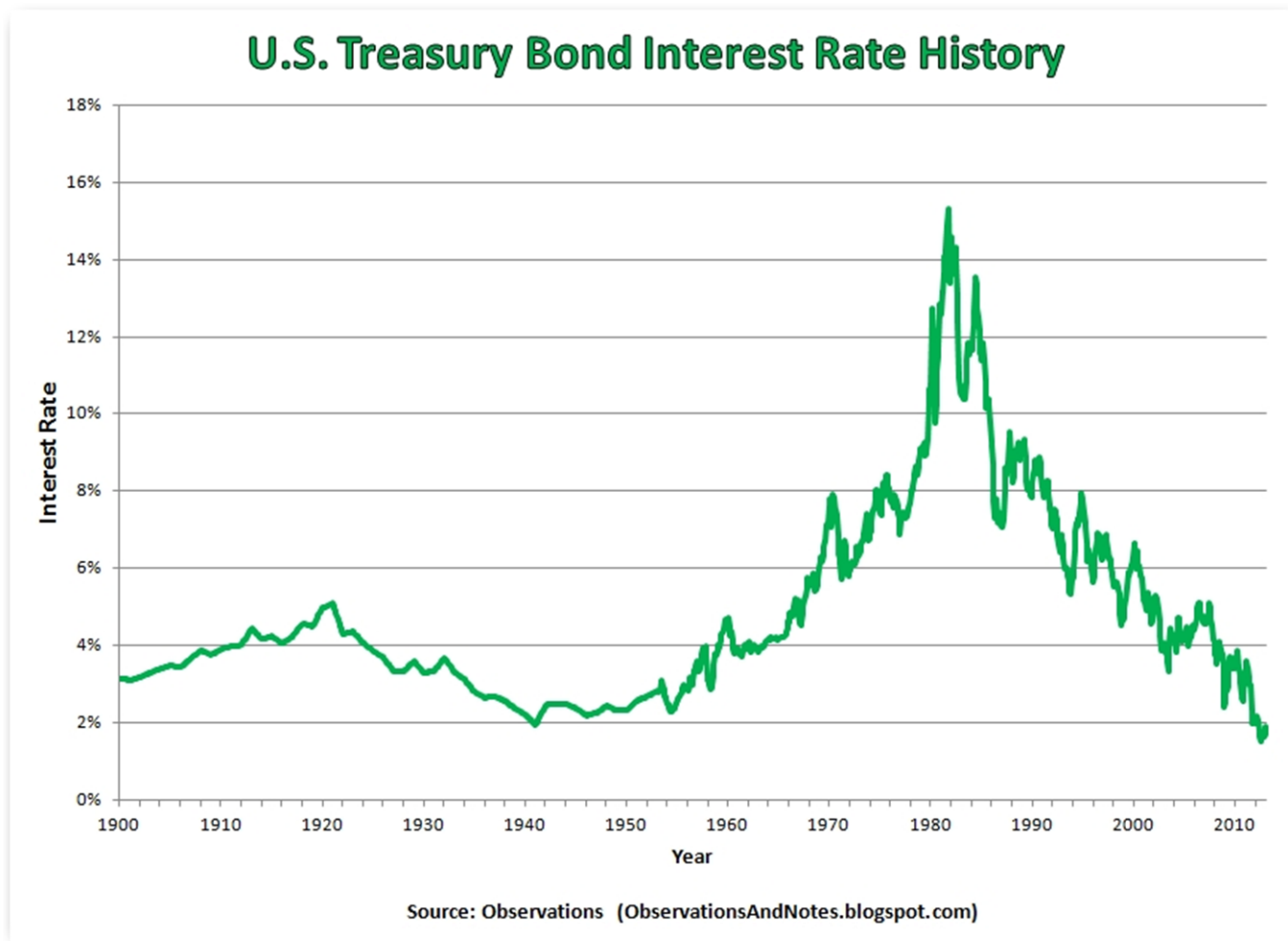
With this structure, Bedford Lending provides direct debt financing with HUD, along with every component needed to secure over 100% financing via the short term bonds.

We manage the entire process for our clients from start to finish.

As an added benefit, HUD financing + short term bonds are typically underwritten via the “streamlined” HUD process, which allows for one stage, simplified processing. This generally shortens the time required from start to finish from 6 months to 4.5 months.

## *Program Benefits (con't)*

- **Fixed rate for 40 years** – mitigates historical interest rate risk



## Program Benefits (con't)

The image below demonstrates the benefit of locking in a fixed-rate for 40 years compared to bank financing (which typically has a 5-10 year fixed-rate term). A higher interest rate impacts the cash flow of a property, which in turn substantially impacts the value of the property for investors/borrowers.

Sensitivity Analysis			
	HUD	Bank - 7%	Bank - 9%
Loan Amount	\$ 21,474,000	\$ 21,474,000	\$ 21,474,000
Interest Rate	5.00%	7.00%	9.00%
Loan Term	40	30	30
Monthly Payment	\$ 103,547	\$ 142,867	\$ 172,785
MIP	\$ 11,632		
Total Payment	\$ 115,179	\$ 142,867	\$ 172,785
Annual Payment	\$ 1,382,144	\$ 1,714,405	\$ 2,073,416
		\$ 332,261	\$ 691,272

### Lost Value Resulting from Higher Interest Rate

Cap Rate	6.5%	\$ 5,111,706	\$ 10,634,956
----------	------	--------------	---------------

## *Energy Benchmarking aka “Green MIP”*

Formally implemented in 2017, HUD has established energy efficiency requirements for all properties seeking HUD financing after July 2017. Bedford Lending will assist property owners in performing this benchmarking.

For properties that are exceptionally energy efficient, HUD will reward owners in a variety of ways.

Benefits include:

- Reduction in monthly MIP payment which has significant positive impact on surplus cash flow.
- Reduction in mortgaged “capitalized” MIP due at closing by 30-80 basis points.
- Project can be underwritten with reduced operating expenses which may increase mortgage amount.

## *Energy Benchmarking aka “Green MIP” (con’t)*

The below chart shows an example of the benefits of constructing or rehabbing an energy efficient property.

	With Green MIP	Without Green MIP
Operating Expenses	Reduced utility expenses by \$20,000.	n/a
Maximum Mortgage Amount	\$10,257,822	\$9,579,031
Annual Debt Service	\$517,454	\$558,535
Yearly Surplus Cash Flow	\$163,756	\$122,675
Estimated Increase in Construction Costs to secure Energy Certification	1% or \$76,703	n/a

Bedford Lending has written a brief white paper detailing energy benchmarking and its requirements. Please contact us or visit our website to learn more.

# Loan Process

Step 1 - Client complete workbook that includes a construction budget and projections



Step 2 - BLC will complete a free analysis and review findings with the borrower



Step 3- Prepare an overview package of the deal and submit to HUD



Step 4 – Schedule meeting with borrower at HUD office (or have conference call)



Step 4 - If meeting is favorable, we will begin formal underwriting process.



Step 5 – The loan typically closes within 4-6 months.



# FAQs

- *Can I receive credit for pre-paid expenses?*
- Yes.
- *Do I need to complete architectural plans before getting started?*
- No, the HUD process is designed to allow for changes and limited documentation throughout the process in order to reduce borrower's up-front costs.
- *Can I receive a Developer's Fee?*
- Only if you are a non-profit borrower.
- *What type of credit requirements are there for principals?*
- HUD does not have any net worth, liquidity, or FICO minimums, however a strong, stable track record for any entities and principals with 25%+ ownership in a project is ideal.

## *FAQs (con't)*

- *Is FF&E a mortgageable cost?*
- Yes.
- *Is demolition a mortgageable cost?*
- No.
- *Can I do construction / site work on my land in advance?*
- No. HUD has a “three year lookback rule”. They do not want any construction or site work to have been completed within 3 years of the HUD closing (~2.5 years before starting the process). For special circumstances, a waiver may be secured.

# *Sample of Recent Closings*

## *Bedford, NH – 83 unit New Construction*



**Project filled up in less than 6 months.**

# *Vernal, UT – 128 unit New Construction*



Project filled up in less than 7 months.

## *Boise, ID – 126 Units*



Project filled in 8 months.

# *How do I get started?*

We need only a few pieces of information to see if your project qualifies for HUD financing:

- 1) Income and expense projections
- 2) Information about the land, including acquisition cost and/or current balance
- 3) Construction costs (can be rough estimates, you do not need a detailed breakdown)

Any other supporting information you can provide about the market or project is helpful. We pride ourselves on our quick, accurate, and free HUD pre-qualifications.

## *Contact Information*

Wayne Jean, President  
[waynej@bedfordlending.com](mailto:waynej@bedfordlending.com)

Bedford Lending  
40 South River Road,  
Bedford, N.H. 03110  
Ph: [603.647.4646](tel:603.647.4646)  
[www.bedfordlending.com](http://www.bedfordlending.com)