

HUD 221(d)(4) New Construction & Rehab Loan Program



www.bedfordlending.com

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 HUD Lender

Has closed over \$2 billion in loans

Bedford Lending Difference

- We pride ourselves on rapid turnaround time and have a singular focus on customer service. We pick up the phone and answer emails 7 days a week.
- We are a direct lender, not a broker or intermediary.
- Many times we act as consultants (at no cost) to help preserve or structure deals that other lenders turn down due to complexity.

HUD Key Benefits

Features	Benefits
Fixed Rate for Entire Term (35 or 40 Years)	Protects against rising interest rate environments.
Declining Prepayment	Benefits short term (5-10 years) and long-term investors versus defeasance or yield maintenance prepayment structures.
Assumability of Note	Yes
Footprint and Loan Size	Nationwide with no limitation on loan size.
Leverage (LTC)	Multifamily: Minimum 85% LTC/LTV, but can go to 100.0%+ with grants and tax credits.
Commercial Space	Allowed up to 25% of building area, and 15% of income. We can include commercial income in underwriting to provide larger mortgage amount.
Bedford Compensation	We do not get paid until closing, so there is no reason to protract process or mislead borrowers if a deal does not work.

221(d)(4) Overview

The **HUD 221 (d)(4)** program provides construction and permanent financing for the new construction and substantial rehabilitation of 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.

Multifamily

221(d)(4) Benefits

Feature	Benefit
Borrower Types	Profit and Non-Profit
Maximum Loan Term	40 Years
Fixed Rate	Up to 40 Years
LTC/LTV	85% to 90%
Tax Credit/Grant Blended Program LTC/LTV	Up to 100%
Construction Interest	Capitalized in Mortgage
Tenant Types	Market Rate, Affordable, Combination
Recourse	Non-recourse from day one.
Closing(s)	One closing. Interest rate locked prior to construction. Converts to permanent financing automatically after construction. Can pre-lease units during construction.

One Closing Explained

As previous slide mentions, the HUD 221(d)(4) (construction/rehab) program is construction and permanent financing with one closing.

- The interest rate *is locked prior* to closing.
- Construction interest is *capitalized* in the mortgage amount.
- The permanent term *starts* at construction completion, however units can be pre-leased to mitigate initial deficits.
- The locked interest rate *does not reset* when the permanent term starts, and new third parties or other due diligence is not required. It is all seamless.
- The permanent 40 year fixed rate term and loan amortization *does not start until construction completion*.

Therefore you are mitigating interest rate risk before construction starts, interest payments are automatically included in the mortgage, and the construction period is not using up any of the 40 year term. Plus the loan is non-recourse from day one.

Eligible Property Types

Property Category	Description
Eligible Properties	<ul style="list-style-type: none">▪ Garden-style Apartments▪ Four Plexes (or similar)▪ Elevator Buildings▪ Scattered Site Apartments (if one marketable entity)▪ Walk-up Apartments▪ Renovations (mills, historic buildings, etc) <p>Virtually any apartment and building layout, with any finish level, can be financed with HUD.</p> <p>HUD imposes no income restrictions!</p>
Ineligible Properties	<ul style="list-style-type: none">▪ Dedicated Student Housing▪ Condominiums (project can be individually metered with condo regime in place; however, individual units cannot be sold with HUD mortgage is in place)▪ Mobile Homes▪ Transitional Housing

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.

Potential Equity Sources that we can use with the program

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

Long Term Fixed Rate Benefits

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
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HUD and Tax Credits – 100%+ Financing

Our HUD program can be blended with short term bonds/LIHTC 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.

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 7 months to 4.5 months.

New Green Benefits



HUD has established new energy efficiency guidelines that provide substantial benefits to owners for qualified properties.

In our experience, all new construction projects or projects built in the last 5-10 years will qualify for these benefits (simply due to modern building materials) with little to no additional cost, and renovations for existing projects will be similarly cost effective. It is not like LEED or other certifications which can require significant investment.

We will discuss at time of analysis.

Benefits include:

- Reduced debt service payments by 35-40 basis points, which has significant positive impact on surplus cash flow.
- Reduction in a required HUD underwriting fee by 30-80 basis points.
- Project can be underwritten with reduced operating expenses which may increase mortgage amount and cash flow.

Green Benefits Example

A client came to us with a market rate new construction apartment project in the Northeast and requested a comparison of HUD benefits for an energy efficient versus non-energy efficient project.

The following chart shows the difference in cash flow, mortgage, and debt service that the developer recognized under this new program.

	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

Loan Process

Step 1 – Client provides income, expense, and cost projections/estimates



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



Step 3 – BLC prepares an overview package of the deal and submits to HUD. Before any soft costs are incurred or significant time spent, borrower and Bedford Lending discuss all assumptions with HUD at this “pre-loan committee”.



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



Step 5 – The loan typically closes within 4-7 months.

FAQs

- *Can I receive credit for pre-paid expenses?*
- Yes. Monies spent during underwriting on third party reports, a&e, etc can be reimbursed to you or credited at closing to reduce equity.
- *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. Repairs under \$15,000 per unit typically do not require any architectural work.
- *Can I receive a Developer's Fee?*
- Only if you are a non-profit borrower or utilizing LIHTC.
- *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.
- *Is a ground lease eligible?*
- Yes.

FAQs (con't)

- *Do I have to pay Bedford Lending to go to the “Concept Meeting” stage with HUD?*
- No, there is no fee from us or HUD. Our fee is not secured unless a deal closes.
- *Is FF&E a mortgageable cost?*
- Yes.
- *Is demolition a mortgageable cost?*
- No.
- *Are third party reports, finance fee, and other soft costs mortgageable?*
- Yes.
- *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 (critical infrastructure work, etc), a waiver may be secured.

FAQs (con't)

- Does a piece of land or an existing building have to be under my ownership prior to coming to HUD for financing?
- No. There's no need to secure bridge or conventional financing before coming to HUD, unless the property has significant occupancy issues, and does not need substantial rehabilitation. For existing properties, repairs and improvements can be completed as part of the HUD acquisition or refinance.
- *Is age restriction allowed?*
- Yes, 62 and older. (55 and older is ineligible).
- *Can I condo a property?*
- A condo regime can be put in place, but individual units cannot be sold while HUD has insured the mortgage. To sell individual units, the HUD loan must be assumed/extinguished.

HUD Timeline

- New construction and substantial rehabilitation program takes 5-7 months from start to finish.

Sample of Recent Closings

Bedford, NH – 144 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 items 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 and estimated value
- 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

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