BedfordLending

Statutory Limits for HUD 221(d)(4) - Explained

The mortgage amount of a HUD construction or rehab loan is typically determined by the lower of two calculations:

1. What the underwritten net operating income (NOI) can support, or;
2. A percentage of replacement cost (LTC), which is 85% for market rate and up to 90% for "Affordable" transactions

For the first calculation (NOI), we reflect the estimated rents and expenses, then factor in HUD's underwriting criteria (vacancy factor, debt coverage requirement, etc) which then "backs into" a loan amount that can be supported by those metrics over a 40 year term at the proposed interest rate.

For the second calculation (LTC), we calculate all of the transaction costs, including appraised land (or existing building) value, and then multiply that total by a percentage. See below for an example of both calculations:

Estimated Net Earnings (from H -5)	$815,862
85%, 87%, or 90% Limitation	1.176
Net Earnings Available for Debt Service	$693,760
Maximum Mortgage based on DSC	$14,162,147
Total Maximum Mortgage based on DSC	**$14,162,147**

Total Estimated Replacement Cost of Project (from G-47)	$	14,581,165
85% , 87% , or 90% Limitation		85.0%
Maximum Mortgage based on Replacement Costs	**$**	**12,393,990**

As seen above for demonstrative purposes, the underwritten NOI of $815,862 can support a loan amount of $14.1mm. This loan amount would also be impacted by a higher or lower interest rate.

From a replacement cost approach, we multiply the total project costs of $14,581,165 by 85% (for a market rate transaction), which results in a loan of $12.39mm.

We then use the lower of the two to determine the mortgage amount, which in this case would be $12.39mm.

Occasionally, in high cost markets and/or major metro areas, the "statutory limit" mortgage calculation is required by HUD in addition to the two noted above. Essentially HUD publishes "base" factors each year for its different loan programs - similar to a Fair Market Rent - which we in turn use as part of the "statutory limit" mortgage calculation. See below for a chart of the 2022 HUD 221(d)(4) base factors as an example:

Section 221(d)(4)—Moderate Income Housing

Bedrooms	Non-elevator	Elevator
0	$54,628	$59,010
1	62,013	67,649
2	74,959	82,262
3	94,085	106,418
4+	106,314	116,817

As seen, there are different base factors for an elevator and non-elevator building, due to the increase in costs typically required for an elevator building.

HUD also publishes a cost factor depending upon region, which accounts for increased costs in higher cost areas. As seen in the below example, a "lower cost" market like Shreveport, LA has a factor of 242%, whereas Kansas City, MO has a factor of 270%:

SOUTHWEST REGION	High Cost Percentage
Ft. Worth TX (Southwest Regional Office)	252%
Dallas TX	252%
Houston TX	247%
Lubbock TX	237%
San Antonio TX	224%
Little Rock AR	246%
Des Moines IA	270%
Topeka KS	266%
New Orleans LA	249%
Shreveport LA	242%
Kansas City MO (Satellite Office)	270%

Now let's see how all of this ties together:

2020 Limits - Elevator	Base	# of Units		Total
0 Bedrooms	$59,010	18	$	1,062,180
1 Bedrooms	$67,649	3	$	202,947
2 Bedrooms	$82,262	25	$	2,056,550
3 Bedrooms	$106,418	0	$	-
4 Bedrooms	$116,817	0	$	-
	Total	46	$	3,321,677
	Multiplier	FL		270%
			$	8,968,528
Warranted Land Value		100%	$	2,300,000
Site Not Attributable to Dwelling Use			$	350,000
Parking Spaces			$	-
Maximum Mortgage based on Statutory Limits			**$**	**11,618,528**

As seen above, we take the base factors published each year and multiply this by the unit mix of the project. For example, if a project had 100 one bedrooms and no other unit types, the "1 Bedrooms" row which currently has "3" units listed would show "100", and the others would show "0".

Once we have multiplied the base factors by the unit count, we then multiply that sum by the cost factor noted above. In this example, the project is located in a part of Florida which would qualify for a “270%” multiplier.

We then **add** the appraised land value to this sum, along with costs “not attributable to dwelling use”, which are determined by an architect and ultimately a cost analyst later in the process. Costs “not attributable to dwelling use” are construction costs that are not tied to the specific dwelling units, for example landscaping costs, community amenities, parking, commercial space, etc. We can provide more information on how to calculate costs “not attributable to dwelling use” upon request and there is also a ceiling on how much can be “added back” to the calculation..

In 9 out of 10 transactions, this mortgage amount calculation is never used, instead it comes down to income vs cost as seen on the first page. Only in areas in or surrounding metro markets, or developers planning on high end / luxury developments with high construction costs per unit will bump into this, but it’s important to consider early on, as it can be very limiting in some scenarios.