BedfordLending

HUD 221(d)(4) Apartment Construction & Rehab Program

www.bedfordlending.com

What is Bedford Lending's role?

We are a direct lender, **not** a broker. We are one of approximately 25 companies that actively provides HUD multifamily financing throughout the country.

Headquartered in Londonderry, NH, family owned since 1991.

Maintains HUD highest designations –MAP and LEAN Approved.

We do not get paid unless a transaction closes.

We only provide HUD financing which enables us to have a deep knowledge of the programs, versus larger companies that do not have a singular focus.

HUD Facts vs Fiction

- A common myth is that a multifamily property must offer reduced rents or subsidies to qualify for HUD financing. This is not accurate. Properties can be 100% market rate, 100% subsidized (Section 8 Vouchers and HAP Contracts), 100% rent restricted (LIHTC) or *any* combination thereof. There are no minimum affordable set-asides or rent caps required to use the program.

- Another myth is that the process is arduous and takes years to complete. The HUD 221(d)(4) program is a two-stage process which can be reduced to one-stage for borrowers with prior HUD experience. The process is designed to limit a borrower's out of pocket expenditures / at risk capital by providing multiple levels of HUD review and approvals at fixed intervals before closing. See next slide for more information.

- The 221(d)(4) program generally takes no more than ~9-11 months which can be reduced to ~7-9 months for borrowers with prior HUD experience.

HUD Underwriting Process

Step One: Concept Meeting

- Bedford Lending to prepare preliminary narrative and financial exhibits about project, then will schedule conference call with HUD staff and borrower (and other relevant parties) to discuss. Calls takes no more than an hour but is like an "early loan committee" to discuss any concerns or issues before underwriting commences or any money is spent by any party.

Step Two: Pre-Application

- Appraisal, market study, and environmental report is commissioned to receive third party validation of assumptions presented at Concept Meeting. Preliminary (limited) plans also included for HUD review.

Step Three: Firm Application

- After two HUD approvals, process switches to architectural / cost deliverables. HUD recognizes this can be biggest out of pocket expense therefore it is not completed until last stage before closing. Monies spent on deliverables will be credited at closing towards equity due. HUD's goal is, if Firm Application is materially similar to Pre-Application (the previous step), HUD will approve loan to close without issue.

As noted on the previous slide, borrowers with prior HUD experience can elect to go directly from the "Concept Meeting" to the "Firm Application" if desired. This works well to save time for phased developments or projects "reusing" plans to minimize processing timing.

Borrower Experience Requirements

- At least one principal on the ownership team must have positive experience and qualifications in developing, owning or building multifamily properties reasonably comparable in kind and scale to the subject of the proposed transaction. Comparable in kind and scale means: (a) similar in physical size (e.g. number of units) and building type and uses (e.g. low rise, high rise, commercial spaces); (b) similar financially (e.g. revenues, expenses, size of mortgage, required liquidity); (c) similar operationally (e.g. target markets/tenant population, elderly, subsidized or affordable); and (d) similar in kind of transaction purpose (e.g. acquisition, re-positioning/turn-around, rehabilitation, new construction).

- Related experience in single family development or in development of commercial properties is generally not an acceptable substitute for the required prior multifamily experience and may not be a basis for a waiver of the experience requirement. An experienced General Contractor or Management Agent generally will not be considered as an adequate mitigant for an inexperienced Principal or Borrower proposing new construction or substantial rehabilitation.

HUD New Construction and Substantial Rehabilitation (221d4) Overview

What is the difference between a HUD 223(f) loan and a HUD 221(d)(4) loan?

New Construction & Substantial Rehabilitation = 221(d)(4)

The 221(d)(4) program funds ground up new construction, and/or the substantial rehabilitation of multifamily buildings, regardless of current occupancy levels. Substantial rehabilitation is considered anything over ~$45,000 per door in improvements.

Refinance & Acquisition = 223(f)

- The 223(f) program is permanent financing only.
- Projects that have been in operation for more than a year or two should have maintained average occupancy of 90%+ for the past six months and should generally show strong historical occupancy trendlines.
- Projects that are coming out of lease-up (recently constructed/renovated projects) must achieve 90% occupancy before the application can be submitted and should show proof of strong demand (quick absorption).
- The 223(f) program can fund repairs identified by a capital needs assessment that will be commissioned at time of underwriting, but the total repairs should be less than $45,000 per unit.

221(d)(4) Benefits

Features	
Borrower Types	For-Profit and Non-Profit. Sponsors must form a single asset entity for HUD financing, but members/partners/owners of this entity can be in any configuration.
Maximum Loan Term	40 Years
Fixed Rate	40 Years
LTC / DCR	87% for market rate, up to 90% for affordable. DCR is 1.15x for market rate, down to 1.11x for affordable.
Prevailing Wage / Davis Bacon	Required for new construction and rehab. Modular construction can be utilized to help off-set prevailing wage.
Other Capital	Other sources of capital including but not limited to tax credits can be combined with HUD debt to maximize leverage, however private secondary financing is not allowed except in limited scenarios.
Construction Interest	Capitalized in mortgage based on schedule required for construction (14, 16, 18 months, etc.).
Tenant Types	All ages or elderly restricted. Elderly restricted = 62+. 55+ not allowed.
Recourse / Assumability	Non-recourse from day one and assumable.

What happens if rates drop after I lock in for 40 years?

HUD's long term fixed rate benefits protect borrowers in times of interest rate volatility, however when rates are rising, some borrowers wonder if it's "worth" locking into HUD at a higher rate versus waiting to see if market conditions cool.

For borrowers with an existing HUD loan, there are two streamlined processes to drop the interest rate post-closing.

1. Note Modification. Keep current term, loan amount, the only thing that changes is the rate lowers and the prepayment penalty resets. Quick, simple process.

2. 223(a)(7). This is a streamlined refinance process that allows borrowers to re-amortize their initial loan by up to 12 years beyond the original maturity date. Like a note modification, the prepayment penalty will reset. Can also fund $1,500 per unit in repairs.

No cash out available in either program, and both would be subject to the prepayment penalty outstanding (if any) on the existing loan, however that can be capitalized into the note modification or 223(a)(7) proceeds.

221(d)(4) Benefits (con't)

Features	
Footprint and Loan Size	Nationwide. Generally, HUD 221(d)(4) construction/rehab loan size should be $5mm+ due to soft costs and timing involved.
Contributed Land / Building Value	The difference between the current value of a site or building and the debt on the property (if any) can be treated as cash equity to reduce borrower cash out of pocket.
Declining Prepayment Penalty	No defeasance or yield maintenance. No balloons. Typical prepay structure is 10-9-8-7-6-5-4-3-2-1 (declines by 1% over first 10 years, none after 10 years).
Leverage	Unlike other loan options such as Fannie Mae, Freddie Mac, or banks, there is no variance in program terms, leverage, or interest rates based on project location, owner, experience, etc., and all HUD loans are high leverage, non-recourse, and carry long fixed rate amortization periods.
Closing(s)	One closing. Interest rate locked prior to construction. Converts to permanent financing automatically after construction. Can pre-lease units during construction.
Commercial Space	Acceptable, however generally limited to 15-20% of total building space / total income. We can include commercial income in underwriting to provide larger mortgage amount and larger percentages (above 20%) may be accepted with waiver, however HUD will be conservative about anticipated commercial income.

One Closing Explained

As the previous slide notes, the HUD 221(d)(4) (construction/rehab) program is construction and permanent financing all in one. There is no construction loan, and then subsequent permanent loan as is typical with banks or other lending options.

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

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

Eligible Property Types

Property Category	
Eligible Properties	▪ Garden-style Apartments ▪ Four/five-plexes (townhomes, etc.) ▪ Elevator/non-elevator Buildings ▪ Scattered sites located across multiple areas (if considered one marketable entity) ▪ Renovations (mills, historic buildings, etc.) ▪ Row homes ▪ High Rises, Low Rises All projects must contain at least five units to be eligible.
Ineligible Properties	▪ Dedicated Student Housing ▪ Residential Subdivisions – at least 50% of the *buildings* on a site should contain at least 4-5 units, which can include attached townhomes. HUD generally does not like single family structures. ▪ 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 / Drug Rehab / Medical ▪ 55+ Age Restriction (HUD requires 62+ age restriction, if developing an age restricted property)

Mortgage Insurance Premium

- Mortgage Insurance Premium ("MIP") is required for HUD loans. This is a portion of the interest rate that flows to HUD; in return for this insurance premium, HUD guarantees the loan which enables the loans to be high leverage and non-recourse with below market interest rates. The MIP is applicable regardless of overall loan leverage or borrower strength.
- In 2025, HUD changed what were previously varying MIP amounts per property type to one fixed MIP amount of 0.25% for every scenario:

Type of Project	MIP Amount
Market Rate	0.25%
Market Rate (Energy Efficient)	0.25%
Affordable Housing	0.25%
Broadly Affordable Housing	0.25%

- The effective MIP over the life of the loan is typically just ~13 basis points or so, as the MIP portion of debt service payments declines as the principal balance of the loan amortizes.

HUD Fees

HUD charges three fees as part of a HUD 221(d)(4) loan. Of the three, only one is paid prior to closing (during underwriting) and is listed below. This fee is credited back to the borrower on the settlement statement.

Fee Name	Description	Cost
HUD Exam (Application) Fee	Covers HUD's review of our formal underwriting submission(s). This is only paid after third party reports are received, etc. It's not paid "up front" or to start the process. Bedford Lending receives no portion of this fee.	0.30% of the mortgage amount. As noted earlier, the 221(d)(4) underwriting process is typically completed in three stages. The first stage is a "screening" of the transaction by all parties (including HUD) at no cost. After an initial approval, an appraisal, market study and Phase I environmental report will be commissioned by us (the lender) to determine if the assumptions presented to HUD can be supported (the second stage). The third and final stage of the application process centers around delivery of project architectural plans / finalizing construction deliverables, as HUD recognizes this is generally the largest time and cost commitment before closing. Thus the fee is typically 0.15% due at the second stage, and 0.15% due at the third and final stage (0.30% total). Borrowers with prior HUD 221(d)(4) experience may elect to complete a more streamlined underwriting process (at HUD's approval) which would require a 0.30% fee paid at one time after the initial screening. This amount can be reduced to 0.20% if the property is in an Opportunity Zone and further reduced to 0.10% if the property is both in an Opportunity Zone and contains a Section 8 HAP contract tied to the property that covers more than 90% of the rental units. Similarly, if a project meets one of HUD's definitions of affordability (will discuss), no fee is due at the second application stage, regardless of whether the second application stage is utilized.

HUD Fees (con't)

HUD charges three fees as part of a HUD 221(d)(4) loan. Of the three, two are collected at closing and are listed below. These fees are drawn from mortgage proceeds.

Fee Name	Description	Cost
HUD Mortgage Insurance Premium ("Mtg Ins Pre.")	"Mortgage Insurance Premium" is collected both at closing and as part of debt service payments on an ongoing basis once construction is complete. Bedford Lending receives no portion of this fee.	0.50% of the mortgage amount. This payment covers HUD's Mortgage Insurance Premium due during the construction period. It is capitalized in the loan versus paid out of pocket and only collected at closing. This insurance premium flows into a pool of funds which can be used in the event of project default. There is no avoiding this Mortgage Insurance Premium; it enables the 221(d)(4) program to exist. Depending upon the length (time) of construction, this fee may be reduced (prorated) at construction completion. The above figure assumes a 24 month construction period (0.25% MIP x two years). If the construction period is only 16 months or 20 months, we still must reflect two full years of MIP at closing, as HUD requires any partial year to be "rounded up" for underwriting purposes, however the actual fee may be reduced and credited back as part of the cost certification completed near the end of construction.
HUD Inspection Fee	Covers HUD's monthly site visit during construction where they inspect work/materials and sign off on draws. Bedford Lending receives no portion of this fee.	0.50% of the mortgage amount for new construction transactions or 0.50% of construction costs for substantial rehabilitation transactions. It is capitalized in the loan versus paid out of pocket and only collected at closing.

Loan Fees (estimate)

- In summation, HUD will charge 0.30% of the loan amount prior to closing, with an additional 1.00% drawn at closing (1.30% total).

- Our (Bedford Lending) fee varies depending upon project complexity and size, as it is the same amount of work for us regardless of loan size. Generally, our fee is ~0.50%-1.50% payable at closing (from mortgage proceeds).

- Other notable soft costs include lender and borrower legal. We do not receive any portion of lender legal fees, however because of the length and documentation of a HUD loan, there are higher legal fees associated with closing. An approximate estimate would be ~$32,500 for lender legal, and approximately ~$17,500 for borrower legal. These fees are subject to independent counsel's invoice and are mortgageable.

- Third party costs are generally $50,000 in total (appraisal, market study, environmental, architectural plan review, cost review, ALTA survey, etc.). This amount varies by project type, size and complexity and are mortgageable.

- The above explains why the HUD 221(d)(4) program is not economical for very small loan sizes, because some costs are relatively "fixed" which are hard to absorb without economies of scale. Projects with estimated loan sizes below $5,000,000 may be better served building or rehabilitating without HUD, then using the HUD 223(f) refinance program to recapitalize ownership and secure many of the same benefits of the 221(d)(4) program once completed.

“Middle Income” Housing

- In early 2025, HUD launched a new definition of affordable housing solely for the HUD 221(d)(4) program. For projects where at least 50% of the units will target rents that are affordable at 120% area median income (“AMI”) or less, HUD will allow the following underwriting criteria to be used:

Housing Type	Minimum Loan to Cost	Minimum DCR	Minimum Vacancy Factor
“Middle Income”	90% LTC	1.11x	7%

- The above reflects a 3% increase in loan to cost, and a 0.04x reduction in debt service coverage requirements compared to a market rate 221(d)(4) transaction.

- All targeted units must be memorialized by a use restriction and must be monitored by a state or local government entity annually. A minimum use restriction period of 10 years is required to ensure that middle income tenants benefit from this policy. However, because individual state and local programs vary widely, HUD Directors have waiver authority to approve a term of less than 10 years when enhanced benefits to middle income tenants exist (ex. the proposed use restriction is less than 10 years, but targeted units exceed the 50% minimum.) In no case, however, should the use restriction agreement be less than 5 years.

Commercial Space/Income Limits

- HUD allows commercial income to be recognized in underwriting, and the income can be used to increase loan proceeds. HUD will look at commercial revenue conservatively; they do not want to be in a position where there is substantial commercial space anticipated that ultimately does not lease up, and then the project cannot support its debt service with just residential (non-commercial) income.

Commercial Space Square Footage Limit (as a % of total net rentable area)	25%
Commercial Income Limit (as a % of total effective gross income)	15%
Underwritten Commercial Income Vacancy Factor *(could be larger if market shows weak demand)*	20%

221(d)(4) Escrow Requirements

- HUD requires monies set aside during the construction and lease-up period, which can be tapped into if needed. The unused portion will be returned to the borrower without restriction. These escrows can be funded with cash, a letter of credit, or equity in the land/building, as applicable.

- Working Capital Escrow – equivalent to 2-4% of the loan amount (4% for new construction, 2% for substantial rehabilitation projects). Partially returned at construction completion with remaining returned after six months of breakeven occupancy.

- Initial Operating Deficit – equivalent to 4-12 months of debt service. Returned after six months of breakeven occupancy.

- More detail about these escrows is available upon request.

Potential Equity Sources that can be combined with HUD multifamily programs

- Low Income Housing Tax Credits (“LIHTC”)*
- Tax Abatements/PILOTs
- Public/private grants
- AHP Funds
- HOME Funds

HUD is open to virtually any grant source / capital stack item that can be secured by ownership if the terms are compliant with HUD regulations.

*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. As an added benefit, HUD financing + LIHTC deals are typically underwritten via the “streamlined” HUD process, which allows for simplified processing.

Please note the LIHTC program will have the same experience requirements as HUD and is not a simple process. This is only recommended for seasoned multifamily developers.

Modular Housing Eligibility

Modular construction techniques are eligible and are not subject to prevailing wage (until assembled on site) which can save on costs however the following should be considered:

- HUD must review and approve the proposed modular vendor.
- Modular manufacturers typically require a minimum payment or deposit to initiate or complete work on a modular unit off-site. Such fees are credited to the owner or General Contractor upon delivery of the modular units. But until units are delivered, these payments or deposits are not reimbursable as part of a requisition.
- Architectural and engineering services are required for off-site construction of housing (modules or panels) and the fees for such services must be included in the cost of each manufactured unit.
- In addition, architectural services are required for onsite construction including site work and a prepared foundation for the installation on site of modules or panels constructed off-site. These services are provided by the Project Architect.

BSPRA Credit

- If you have Googled the HUD 221(d)(4) program, you may have run into the term "BSPRA". The BSPRA credit was created by HUD as an alternative to a Developer's Fee, as a Developer's Fee is not allowed for market rate, for-profit borrowers utilizing HUD financing.

- By using BSPRA, a developer is increasing the loan amount with a "cost", however the cost's sole purpose is to reduce cash required out of pocket. It's a "paper" credit. This can be done when the underwritten project income can support a loan amount (based on debt coverage) higher than the loan amount based upon loan to cost.

- BSPRA requires an identity of interest between the general contractor and the owner. An identity of interest can be created in many ways, but the most frequently used methods are for one of the general partners of the mortgagor entity to acquire a small interest in the contractor, or for the contractor to acquire limited partnership interest in the mortgagor entity. The builder cannot secure a Builder's Profit if BSPRA is used.

- Use of this credit is optional but can be very powerful in the right scenario. We have a handout that can be provided that explains this credit in more detail.

221(d)(4) Considerations

Before securing a HUD 221(d)(4) loan, borrowers should consider the following:

1) Loan sizes below $5mm generally are not economical due to the soft costs and timing involved, along with GC requirements. There is no ceiling in terms of how large a loan can be; however, extremely large loan sizes ($130mm+) are subject to heightened scrutiny, may require more conservative DCR/LTC figures, have heightened borrower experience and financial requirements, and must go to National Loan Committee for approval.
2) General contractors must be able to secure a payment and performance bond in 100% of the size of the construction contract. The general contractor (regardless of any relationship with the borrower) will also be treated as a principal in the transaction, which will require a review of financial statements, credit, etc.
3) The general contractor, management agent, and architect can have a relationship ("Identity of Interest") with the borrower which can be beneficial in the right scenario, however if this is the case, the GC contract must be "Cost Plus", and the architect cannot provide supervisory duties during construction (but can do the design phase). We can provide more information on these considerations for borrowers who are vertical.
4) Market demand will be critical to HUD's approval of a transaction. Locations with increasing vacancy and softening demand will be challenging to secure approvals on. Ultimately demand will be determined by a market study at time of underwriting.
5) Borrowers will be required to sign the "HUD-92466M Multifamily Regulatory Agreement" at time of closing. We recommend reviewing this document early on. An annual audit on the subject property is also required.

FAQs

- *Can I receive credit for pre-paid expenses?*

Yes. Monies spent prior to closing on third party reports, repairs, etc. can be reimbursed to you or credited towards any cash due at closing. These are all “mortgageable costs”.

- *Do I need to complete architectural plans before getting started on a 221(d)(4) application?*

No, the initial HUD process allows for changes and limited documentation to reduce borrower’s up-front costs.

- *Can I receive a Developer’s Fee?*

Only if you are a non-profit borrower or utilizing LIHTC. HUD will also not provide funding for any “construction management” charges.

- *What type of credit requirements are there for principals?*

HUD does not have any fixed net worth, liquidity, or FICO minimums, however a strong, stable track record for any entities and principals with 25%+ ownership in a project is required. HUD takes a common-sense approach; whether you’re looking to secure financing for a $2mm, $5mm, or $50mm project, HUD wants at least one person on the team who has the general financial strength to support such a project.

- *Is a ground lease eligible?*

Yes. We can provide more detail on the rules a ground lease must abide by.

- Does land or an existing building have to be under my ownership prior to coming to HUD for financing? Do I need entitlements in place?

No, although it likely doesn’t make sense to proceed with financing without some form of site control.

- *Do I have to pay Bedford Lending to go to the preliminary review or "Concept Meeting" stage with HUD?*

No, there is no fee paid to us or paid to HUD to present a transaction on a preliminary basis to HUD before starting the underwriting process. Our fee is not secured unless a deal closes.

- Is off-site work a mortgageable cost?

No. HUD will only include costs in the mortgage for items that are within the project site boundaries (their collateral). Anything outside of the site boundaries is paid by the borrower out of pocket. Necessary work within 100 ft of site boundaries (utility hookups, etc.) may be treated as mortgageable subject to further due diligence.

- Is FF&E mortgageable?

Yes, but not for furniture inside unit interiors such as beds. Only equipment and furnishings for common areas like a gazebo, pool equipment, etc. can be paid by mortgage proceeds.

- Can I do construction / site work on my land in advance?

HUD generally does not want any construction or site work to have been completed within 3 years of the HUD application. For special circumstances (critical infrastructure work, etc.), a waiver may be secured. HUD will not "step in" halfway through construction – they must monitor and fund the construction process from beginning to end. For projects that may require early grading or other site work, please contact us to ensure the work will not prohibit financing.

- Are there benefits to developing in an Opportunity Zone?

Yes, one HUD fee will be reduced by 10 basis points, and there may be some processing efficiencies by HUD staff.

How do I get started?

We need only a few items to see if your project qualifies for HUD financing:

- Income, expense, and construction cost projections, along with estimated cost and value of the land or building to be developed.

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

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