FHA Sections 220, 221(d)(4) & 221(d)(3)

FHA-Insured Financing for the New Construction or Substantial Rehabilitation Of Multifamily Rental Housing

FHA Section 220 provides mortgage insurance for housing projects located in an urban renewal area.

FHA Section 221(d)(3) is for Nonprofit Mortgagors to assist in providing rental housing for low and moderate-income families. Some special rules apply but otherwise generally conforms to FHA Section 221(d)(4) Program.

Through the FHA Section 220, 221(d)(4) & 221(d)(3) Mortgage Insurance Programs, **RKO Capital LLC. ("RKO CAPITAL")** is actively arranging long-term, fixed rate, nonrecourse financing for the construction or substantial rehabilitation of multifamily rental housing throughout the United States.

PROGRAM SUMMARY

Purpose:
The purpose of the FHA Section 220, 221(d)(4) & 221(d)(3) mortgage insurance programs are to facilitate the construction or substantial rehabilitation of multifamily rental housing in an effort to help build and preserve the national housing stock.

Eligible Projects:
Are proposed new construction or acquisition/refinance with substantial rehabilitation of multifamily rental housing (5 units or greater) nationwide. Existing projects involving rehabilitation work must include at a minimum one or more of the following to qualify:

a) Replacement of at least two major building components;
b) The rehabilitation must meet or exceed 15% of HUD's estimated value of the project after the work is in place; or,
c) The rehabilitation work must exceed $6,500 per unit adjusted by HUD's high cost factor for the area.

Commercial Space:
Under Sections 221(d)(4) and 221(d)(3) commercial space may not exceed 10% of the gross project area, with commercial income not to exceed 15% of the gross project income. Under Section 220 commercial space may not exceed 20% of gross project area, with commercial income not to exceed 30% of gross project income.

Loan Features:

- o • Low fixed interest rates, negotiable pre-payment terms
- o • Up to 40 year term, fully amortizing
- o • Up to 90% loan-to-replacement cost value ratio (up to 100% for non-profits)
- o • Assumable with approval
- o • Non-recourse
- o • No limitations on owner's return
- o • No rent restrictions (unless required by LIHTC or tax exempt bonds)
- o • Combined construction/permanent loan, locked in at initial construction loan
- o closing

Mortgage Amount:

The mortgage amount is limited to the lesser of:

1. 90% of replacement cost value (100% for non-profits)
2. 90% of net income capitalized by loan constant (95% for non-profits). FHA cannot use a residential occupancy rate that exceeds 95% and the occupancy rate on commercial space is typically limited to 80%.
3. Per unit statutory limits as established by HUD

Transaction costs which can be cost certified and typically funded from mortgage proceeds include the following:

- o • Purchase price of land/buildings or existing debt
- o • Construction costs, soil tests, bond premium, other fees and building permits
- o • Architect fees for design and supervision
- o • Financing and Placement Fees not to exceed 3.5% (5.5% for Bond financed
- o transactions)
- o • Mortgage Insurance Premium during construction
- o • Legal, Organizational, Audit, Title & Recording, and Survey Fees
- o • HUD Application Fee of 0.30%
- o • HUD Inspection Fee of 0.50%
- o • Appraisal, Engineering, Environmental Inspection Reports
- o • Interest, insurance and real estate taxes during construction

Builder’s and Sponsor’s Profit and Risk Allowance (“BSPRA”):

Under Sections 220 and 221(d)(4) a BSPRA is included in the mortgage and may be used as a credit against the borrower’s required equity contribution where there exists an identity of interest between the borrower and general contractor. Loans insured under Section 221(d)(3) may include a builder's profit instead of BSPRA and a nonprofit developer’s fee.

Eligible Borrowers/Mortgagors:

The Borrower/Mortgagor must be formed as a single asset entity. Profit motivated and non-profit corporations, partnerships, and limited liability companies are acceptable. Borrowers must have an acceptable history insofar as ownership of multifamily properties is concerned and have liquid assets to meet the closing requirements.

General Contractor Requirements:
The general contractor must execute a guaranteed maximum price contract, providing 100% performance and payment bonds or, in lieu of bonds, an assurance of completion escrow funded with cash or an acceptable letter of credit in the amount of 15% (for nonelevatored or 3 story or less elevatored buildings) or 25% (for elevatored buildings of 4 stories or more) of HUD's estimate of construction or rehabilitation cost. The general contractor must demonstrate current liquidity of at least 5% of the project construction contract plus all other uncompleted construction work. Davis-Bacon wage rates apply to this FHA insured loan program.

Property Management:
Professional experienced management is required.

Funding Sources:
HUD Lender will issue GNMA mortgage backed securities or arrange the funding through a whole loan investor. Tax exempt bonds may also be utilized.

Secondary Financing:
Secondary financing (subordinate liens), grants and tax credits from a Federal, State or local government agency or instrumentality may be used to cover up to 100% of the equity requirement and also to finance non-mortgageable costs. The aggregate amount of the HUD insured first mortgage and any approved subordinated liens may exceed 100% of HUD's Project Replacement Cost. Non-mortgageable or non-HUD replacement cost items covered by the secondary financing must be certified by the source provider as reasonable and required to complete the project.

Annual Audits:
Annual audits are required to be filed with HUD.

Distributions:
All distributions from surplus cash shall be made after the end of a semi-annual or annual fiscal period.

Required Escrows:

Mortgage Insurance Premium (MIP)
The annual MIP due HUD is calculated on the outstanding principle balance and is escrowed monthly with the principle and interest payments, commencing with amortization.

Real Estate Taxes and Property Insurance, etc.
These escrows are established at closing and are held in a non-interest bearing account by HUD Lender. Thereafter, deposits to the real estate tax and property insurance escrow accounts are required on a monthly basis.

Replacement Reserve
Deposits to the replacement reserve account are required on a monthly basis beginning with the commencement of amortization. At the request of the borrower these funds may be invested for the benefit of the property. Reserve funds can be drawn upon by the borrower throughout the life of the loan for capital improvements to the property.

Working Capital Deposit

A (2.00%) working capital deposit is established by the borrower at initial endorsement in the form of cash or an acceptable letter-of-credit. This escrow is held by HUD Lender (in a non-interest bearing account) to insure the availability of funds to cover certain start-up expenses and other soft costs once loan proceeds for that purpose have been depleted. Any balance remaining twelve months following final endorsement is returned to the borrower.

Initial Operating Deficit or Operating Deficit Escrow

The facility will be underwritten with an initial operating deficit escrow to cover the period between construction completion and the estimated date for achievement of sustaining occupancy. The borrower will be required to provide HUD Lender with cash or a letter of credit in satisfaction of said escrow. Typically any monies remaining on deposit after the project has achieved sustaining occupancy for 90 consecutive days may be released to the borrower.

Costs Not Covered By Loan Proceeds

Offsite improvements and demolition costs (if any) are not payable from mortgage proceeds. Accordingly, these costs must be satisfied with the deposit of cash or an acceptable letter-of-credit with HUD Lender at initial endorsement.

Prevailing Wage Requirements:

The payment of prevailing wages is required pursuant to the Davis Bacon Act.

HUD Processing Procedure:

Arranging FHA/HUD Insured Financing entails three key steps, as follows:

1. Pre-Application Submission
2. Firm Application Submission
3. Lock-In Financing and Closing

Hud Lender will prepare a preliminary underwriting of the proposed project and contact HUD to discuss the forthcoming Pre-Application Submission.

Step 1: Pre-Application Submission

The Pre-Application Submission filed with HUD will include select information about the project, borrower, management agent, market feasibility study, environmental review, architectural schematic drawings, and cost estimates. Within 45 days HUD should complete its review and determine if the project is acceptable or advice of any revisions necessary to be acceptable. HUD does not charge a fee for processing the Pre-Application Submission.

The purpose of the Pre-Application Submission is for HUD to make an initial review of the proposed project, the development team, and to confirm the strength of the market and evaluate any environmental issues that may need to be addressed. If acceptable, HUD will issue a Letter of Invitation to submit a formal Firm Application for FHA Project Mortgage Insurance.

Assuming HUD issues an Invitation Letter, the next step in the process is to prepare the Firm Application Submission.

Step 2: Firm Application Submission

RKO CAPITAL will work with the sponsor and development team to coordinate the preparation of the Firm Application Submission. The Firm Application consists of a final underwriting of the project, as well as a final review of the borrower's and general contractor's financial capacity, management agent's qualifications, review of the final working drawings, and cost estimates, as well as analysis of the appraisal, and other professional reports. The Firm Application Fee is 3/10ths of 1% (0.30%) of the requested loan amount payable at time of the filing of the Firm Application Submission.

HUD should complete its review and make a final determination regarding issuance of a Firm Commitment within 45 days. Upon HUD's issuance of a Firm Commitment to insure the mortgage, the next step is to lock-in the financing and get to closing.

Step 3 – Lock In Financing & Closing

Upon issuance of a Firm Commitment to Insure the Mortgage, RKO CAPITAL will arrange the funding of the loan. Closing documents will be prepared and then the closing will be scheduled.

We strongly recommend that borrower's engage qualified legal counsel that specializes in closing FHA-insured financings. RKO CAPITAL works closely with several qualified attorneys and would be happy to provide a recommendation.

Preliminary Analysis Information:

If you provide RKO CAPITAL with the following preliminary information, we will be pleased to provide you with a mortgage proposal which will outline the level, terms, and conditions of the financing we can arrange for you:

1. Project description including unit mix with square footages, amenities, and land acreage
2. Site location map
3. Proposed operating budget
4. Estimate of site value and cost. If purchase, copy of purchase contract
5. Construction budget, including estimates of any offsite expenses
6. Resumes on proposed borrower, management agent, general contractor, if selected
7. Zoning evidence with code classification and definition of use
8. Any available Market Studies, Appraisals, Environmental and/or Engineering Reports
9. Schematic site plan, unit floor plans, building plans and elevations, survey, andother architectural drawings (if available)

If our mortgage proposal is acceptable to you, we will initiate the processing of your loan application.