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FHA INSURED LOANS ~ Multifamily Accelerated Processing (MAP)

NEW CONSTRUCTION or SUBSTANTIAL REHABILITATION Of RENTAL APARTMENTS

Section 221(d) Family Apartments, all Areas
Section 220 Family Apartments, Urban Areas only
Section 231 Elderly Only, all residents 62+

PROGRAM FEATURES

- Fixed rate, level pay
- Fully assumable
- Long term- 40 years
- Non-recourse
- HUD **does not limit** rents, tenant incomes in market rate properties, or return on equity

Underwriting Criteria Sections 221(d), 220, 231				
Project Type & Loan Size	**Affordable**		**Market Rate**	
	DSC	**LTC**	**DSC**	**LTC**
Projects with 90% or more Rental Assistance (Section 8)	1.111	90.0%	N/A	N/A
All Other Projects <$75M	1.150	87.0%	1.176	85.0%
>$75M	1.250	80.0%	1.300	75.0%
>$100M Use >$75M Criteria, can be adjusted by HUD on a case by case basis				
Minimum Initial Operating Deficit (IOD)				
<$25M	4 months Debt Service (6 months for high-rise with 1 C/O)			
$25M-$75M	9 months Debt Service			
>$75M	12 months Debt Service			
>$100M Use >$75M Criteria, can be adjusted by HUD on a case by case basis				

Notes

- Also calculate a Loan Limit based on a locally adjusted Statutory $/unit plus additional costs and land value.
- Section 231 Substantial Rehabilitation Loans have a LTV test, with LTV ratios equal to the LTC %ages.
- Large Loan Criteria do not apply to projects with 90% or more Project-Based Section 8.
- Large Loan Criteria do not apply to LIHTC projects with rents that are at least 10% below-market.

QUALIFYING PROPERTY

- New construction or substantial rehabilitation of rental property, five or more units (eight or more units for Section 231).
- Affordable transactions must meet the criteria for Low Income Housing Tax Credit (LIHTC) properties (20% at 50% of AMI **or** 40% at 60% of AMI) and have a recorded regulatory agreement enforcing the affordability restriction by a governmental agency for 15 years. Tax credits are not required as long as the LIHTC standards are met.
- Maximum allowable commercial space and income:
    - ➢ 221(d) & 231: 25% of total NRA and 15% of EGI
    - ➢ 220: 25% of total NRA and 30% of EGI

Substantial rehabilitation is defined as:

- Replacement of two or more building systems, **or**
- Rehabilitation costing more than $15,000/unit times the local high cost factor (typically close to $40,000/unit). The base $15,000 figure was re-set in 2016 and will be adjusted annually by HUD.

LOAN AMOUNT – Section 221(d), 220 and 231

- FHA will insure a loan sized at the lowest of the various tests described in the chart above. The Borrower can also choose to request a lower loan amount.
- For New Construction projects, the estimated replacement cost of the project will typically include land value, land purchase price, or leasehold value. For rehabilitation projects, the cost calculations typically include the "as is Market value" of the property.
- Cost mortgage calculations may still include Builder & Sponsor Profit & Risk Allowance (BSPRA), although BSPRA is not allowed when an Affordable projects uses a mortgageable developer fee.

NON-RECOURSE

The loan is non-recourse. An individual and an entity with control and financial capacity are required to sign a section of the Regulatory Agreement addressing the non-recourse "carve-outs" identified as **Section 50**. The provisions of this paragraph do not alter the non-recourse nature of the loan but do require the signatories to accept personal liability for certain improper acts (fraud, theft of funds, unapproved transfer) which they personally committed or the misuse of project funds they authorized or received. For more detailed information, please contact AGM and see the Regulatory Agreement posted on HUD's website (HUD Form 92466M); we have also posted a HUD Non-Recourse Policy Description on our website, www.AGMFinancial.com.

PERMITTED AGE RESTRICTIONS – ELDERLY HOUSING

The entire property must be restricted - "Dual Purpose" facilities which age-restrict only a portion of the community are not allowed. Overall, HUD Guidelines allow for the use of three types of age restrictions:

A. **Section 231 -- All residents** must be age **62 or older** (62+), or
B. **Section 221(d) -- Head of household** must be age **62 or older** (62+ HOH), all other members of the household may be any age (i.e., younger spouses, children & grandchildren), or
C. **NOT Allowed for 221(d)/231 --** Households with **at least one** age **55+** resident at properties which qualify for an exemption from the familial status provisions of the Fair Housing Act, and which comply with HUD's programmatic requirements. These properties must be at least 80% occupied by at least one 55+ resident, they must publish and adhere to policies demonstrating the intent to serve this age group, and must comply with HUD's rules for verification of occupancy. (This category excludes properties with project-based Section 8.) **Existing properties in this category may be financed under Sections 223f and 223(a)(7), but not in the new construction/ rehabilitation programs.**

LOAN TERM

- The maximum loan term is the lesser of 75% of the Remaining Economic Life of (REL) the property or 40 years, plus the construction period.

INTEREST RATE

- Interest rates are fixed rate, level-pay for the life of the loan, and are set at the time the loan is purchased by the GNMA investor. The rate will be locked after HUD issues a Firm Commitment and before Initial Endorsement (Construction Loan Closing). There is a 0.5% Good Faith Deposit required to lock the rate, which is refunded at closing. The lowest interest rate is currently associated with a lock-out during construction and declining prepayment penalties, which vary depending on market conditions. Two typical schedules are:
    - 10% penalty in years 1-5, then 5%, 4%, 3%, 2%, 1% and none after year 10
    - 10% penalty in year 1, then declining 1% per year and none after year 10

SECONDARY FINANCING

- All second debt must be fully subordinated to the HUD-insured loan, repaid solely from 75% of surplus cash, and the term must equal or exceed that of the HUD insured loan.
- Public secondary debt from federal, state, or local agencies is permitted in any amount and may be secured by the property.
- Private secondary debt is allowed only if the HUD-insured first mortgage is less than 50% of mortgagable costs (80% for LIHTC properties) and the private secondary debt is a seller-financed, identity-of -interest loan of not more than the "as is" value of the property. Private secondary debt **must be unsecured**.

UNDERWRITING / CLOSING PROCESS

AGM will prepare a preliminary mortgage calculation. If this calculation indicates that the project qualifies for a HUD-insured loan acceptable to the Borrower, AGM will schedule a site visit with the Borrower and informally discuss the project with the local office of HUD. The application is made in up to three stages (Pre- and Firm Applications may be combined):

1. Concept Meeting: AGM will prepare a brief synopsis of the transaction for HUD followed by a meeting or conference call with HUD, AGM, and the Borrower. The meeting gives the Borrower an opportunity to discuss significant issues and HUD's pipeline. HUD will either encourage or discourage an application.

2. Pre-Application: A pre-application package includes a Phase I, Form HUD-4128 (further environmental investigation), a market study, and appraisal. Once HUD accepts and processes the pre-application, HUD will issue an Invitation to Apply or reject the application. This step can be combined with #3.

3. Firm Commitment Application: The Borrower has 120 days to file a Firm Commitment Application (plus three 30-day extensions for good cause). This application includes an updated appraisal, updated market study, mortgage credit analysis, full plans and specifications with an independent review, management documentation, and all mortgage credit documents. Depending on the size and type of transaction, loans will likely be reviewed by either a **HUD Hub loan committee** or the **National loan committee**. HUD will issue a Firm Commitment or reject the application. Rejection at this stage occurs typically for severe market downturns or deficiencies in borrower credit-worthiness.

4. Commitment & Closing: Once AGM receives a Firm Commitment from HUD **acceptable to the Borrower**, the debt is competitively bid by AGM to various GNMA Investors. The Borrower's closing attorney prepares the HUD closing package with HUD's and the lender's closing attorneys. Closing is scheduled by HUD after their legal review.

5. Servicing: AGM's Servicing division will monitor and manage payments, escrows, reserves, inspections and any other needs.

MORTGAGEABLE FEES

• HUD Application Fee	0.3% of the mortgage
• Financing/ Debt Placement	3.5% of the mortgage, maximum (5.5% for bond transactions)
• Mortgage Insurance Premium	Reset annually by HUD but fixed at time of Firm Commitment
• HUD Inspection fee	0.5% of the mortgage (New); or 0.5% of construction plus certain fees (Rehab)
• Third Party Review Fees	Appraisal, Market Study, all Environmental Reports, Plans and Cost Review, CNA capital needs schedule, Closing Due Diligence report

ANNUAL FEES AND RESERVES (Paid Monthly)

• Mortgage Insurance Premium	Reset annually by HUD but fixed at time of Firm Commitment
• Reserve for Replacement	Set by HUD at Firm Commitment
• Taxes and Insurance	Adjusted annually

CASH ESCROWS or LETTERS OF CREDIT

- 2% Working Capital: posted at Initial Endorsement and released as needed or at the later of one year after Final Endorsement or 6 consecutive months of 1:1 DSC.
- 2% Additional Working Capital - Contingency for New Construction: posted at Initial Endorsement and released as needed or at Final Endorsement.
- Operating Deficit: see chart for amounts; posted at Initial Endorsement, released as needed or at the later of one year after Final Endorsement or 6 consecutive months of 1:1 DSC.
- Off-Site Costs: posted at Initial Endorsement and released when work is complete.

- Commercial Space Tenant Improvements: T.I. costs over the base cost of a plain vanilla shell must be escrowed in cash at Initial Endorsement; released as work is completed.
- Completion Assurance: 100% Payment and Performance bonds; or LOC equal to 15% of the construction contract amount for projects up to 3-stories, or 25% for 4-stories and up. Posted at Initial Closing, released at Final Endorsement and replaced by 2.5% Latent Defects Escrow.

OTHER PROGRAM FEATURES

- Section 221(d)(3) with separate requirements for Non-Profit Borrowers has been retired.
- MAP processing requires a 3rd party market study, appraisal, environmental, plans & cost review, and CNA capital needs schedule at your expense. AGM completes REO analysis, mortgage credit, and management reviews.
- Rents and expenses must be current and comparable to the marketplace.
- Davis-Bacon (prevailing) wages are applicable. **Residential** (low rise) wages apply to buildings of four or fewer stories. **Building** (high-rise) wages apply to buildings of five or more stories.
- All costs must be certified, except Affordable projects where the mortgage is less than 80% of project costs.
- Interim income during construction is restricted, certified at Final Endorsement, and will be credited against mortgagable and non-mortgagable costs, potentially reducing the cost-limited mortgage.
- Firm Commitment Application requires 100% plans, specifications, and costs. Affordable projects may submit applications with a "bidable" set, and 100% required prior to closing.
- No "or equal" in the Specifications.
- Equal employment and housing opportunity requirements apply.
- ADA & Fair Housing compliance is required
- Environmental reviews will be conducted by HUD (based on information supplied by an environmental analyst) for conditions associated with noise, flood plains or wetlands, historic location, toxic wastes, Radon, VOC's. Capped sites and monitoring wells are acceptable.
- Underwriting of commercial space is different from residential, see HUD Map Guide for details. Required minimum vacancy rate is 20%.
- The property must be projected to lease up in 18 months.
- Prepayment of **HUD Section 202** loans is subject to extensive requirements outlined in several Notices: 2012-8, 2010-14, and 2004-21. Please contact AGM for details.
- Annual HUD-compliant audit is required; release of surplus cash is at a maximum of every 6 months.

- Project is subject to REAC (Real Estate Enforcement Center) inspections to assess the physical condition of the property and ensure acceptable quality.
    - Score above 90 allows re-inspection every 3 years
    - Score above 80 allows re-inspection every 2 years

FINAL NOTE:

The MAP Guide published by HUD describes these program requirements in detail, is more than 700 pages long and is revised from time to time. In addition, a number of HUD Notices and Memos have revised and refined the program requirements over the years. AGM has made a good faith effort to summarize the most important program parameters in this document but other conditions may apply to specific project circumstances.