

FHA 241(a) Supplemental (Second) Mortgage Rehabilitation, Conversion, or Additional Construction



For Properties with an Existing FHA-Insured First Mortgage

Key Features

- **Finances repairs, alterations, substantial rehab, conversion, and additions to existing multifamily properties.**
- **Works only with an existing FHA-insured first mortgage.**
- **Fixed-rate, fully amortizing, non-recourse; fully assumable.**
- **Can finance new units up to the existing unit count.**

Program Overview

FHA-insured supplemental second mortgage for qualified rehab, conversion, or additions at properties with an FHA-insured first mortgage.

Eligibility

- Existing FHA-insured multifamily first-mortgage
- Excludes HUD-held or Section 542 Risk-Sharing
- Can finance new units up to existing unit count.

Loan Sizing

- Minimum DSC of 1.11 on combined debt service
- Up to 90% of hard costs, soft costs, and land value
- Statutory per-unit limits

Additional Sizing Notes

- Large Loans (> \$130MM, 2025): adjusted underwriting; excludes first-mortgage balance from this test
- Commercial Space: less than 25% net rentable area and less than 15% of EGI

Owner Equity Requirement

- Minimum 10% of total development costs
- No cash-out
- Excess reserves may be available as equity

Rate & Term

- Fixed rate
- Construction / Permanent loan
- Co-terminous with first mortgage

MIP

Annual MIP: 0.25% of outstanding loan balance.

Fees (Typical)

- HUD application fee: 0.30% of mortgage
- HUD inspection fee: 0.5% of mortgage (new construction) or 0.5% of improvement cost (substantial rehab)
- Financing/debt placement up to 3.5% of mortgage
- Third-party reports: CNA, environmental, A&E/cost review, closing due diligence

Cash Escrows & Reserves

- Operating Deficit Escrow - typically 3% of loan
- Working capital: 2% for Sub Rehab; 4% for New Construction
- Escrows released: later of one year after Final Endorsement or 6 consecutive months at 1.0 DSC

Additional Features & Compliance

- Davis-Bacon not applicable if existing first is 223(f) or 223(a)(7)
- Repairs list supported by plans/specs and CNA
- Limited mortgage credit review
- Underwritten based on recent operating history
- No limits on rents or returns in market-rate properties
- Cross default first and second mortgages