AGM Financial Services, Inc.

Financing Communities with FHA

For Build-to-Rent New Construction, Think FHA



Financing for BTR multifamily is now available from AGM and FHA.

FHA-insured financing for build-to-rent under Section 221(d) 4 offers borrowers several advantages, including:

- **Fixed Rates**
- **No Recourse**
- **Higher Leverage**
- **Longer amortization**
- **A single construction/permanent loan**
- **No limits on rents, tenants, or returns**

FHA loans are generally sized to the lesser:

- **1.15 Debt Service Coverage**
- **87% Loan-To-Cost**
- **No loan-to-value test**

FHA BTR financing is similar to traditional FHA 221(d)(4) financing for multifamily, with a few key differences:

Qualifying Build-to-Rent Projects

- Projects of five or more units.
- Detached single-family homes, duplexes or triplexes.
- New construction only (no substantial rehab projects).
- Mixed sites with traditional apartments may qualify.
- Site-built, modular or manufactured construction.

One site, one project, in a cohesive, contiguous community.

- One tax parcel is preferred, but multiple parcels are OK.
- No interspersed privately owned homes or lots.
- No individual home/lot sales or partial collateral releases
- Professional onsite or staffed local management required.
- HOA or master-plan restrictions cannot impair HUD's rights or borrower control.

Other Loan Terms

Interest rates on FHA-insured BTR loans are fixed just before closing and remain fixed at that same rate through construction and for the life of the loan. An FHA-insured loan for BTR new construction is a single loan with up to 24 months for construction (consistent with the term of your construction contract) and a full 40-year term after construction. As a single loan with 24 months or longer for construction, there is no conversion or "hurdle" to the permanent loan (that is, no occupancy or debt service coverage tests), though an audit of project development costs is required.

FHA-insured BTR loans are fully non-recourse, subject to certain "carve-outs" such as fraud, theft of funds, or unapproved transfers of ownership interests. These carve-outs do not change the non-recourse nature of the loan but do require that a key individual accept personal liability for these "bad boy" acts. FHA-insured loans are fully assumable and prepayable at any time, though subject to declining prepayment penalties.

The typical prepayment penalty structure includes a 10% penalty in year 1, then declining 1% per year until year 10, when the loan is prepayable without penalty. Prepayment penalties can be customized to fit your long-term plans for the property, usually with a modest adjustment to the interest rate.

AGM Financial Services, Inc.
Financing Communities with FHA
MARKET RATE & AFFORDABLE

agmfinancial.com
800.729.4266

Process

The process for obtaining an FHA-insured loan for new construction has three steps – concept meeting, pre-app, and firm application. The concept meeting for new BTR construction is your chance to present your project directly to HUD staff. AGM will prepare a concept package outlining the project as you understand it at this early stage, typically including a preliminary pro forma, a preliminary market study, an existing Phase 1 environmental study, and background on the development team. Renderings, sketch site plans, and any schematic plans are helpful but not necessary at this early stage.

The goal of the concept meeting is to obtain an encouragement letter from HUD, which opens the way to the pre-app stage and often identifies any issues or concerns from HUD staff. Other than the cost of the market study, there is no cost for the concept meeting and no fee to HUD or AGM.

The pre-app includes an updated market study and Phase 1 environmental study, an appraisal, and a very limited set of schematic drawings, including a site plan, a building plan, an elevation, and a typical wall section. At this stage, the application fee to HUD is 0.15% of the mortgage amount. The goal of the pre-app is an invitation to apply for a firm commitment to mortgage insurance.

The firm application includes an updated appraisal, an updated market study, a mortgage credit analysis completed by AGM, 80% plans and specifications, and independent reviews of the plans and costs. The application fee to HUD at this stage is an additional 0.15% of the mortgage amount. By the time we are ready to submit the firm application, the deal and the development team are largely set, with a general contractor, firm construction pricing (including Davis-Bacon wages), and a qualified management agent all in place.

Founded in 1990, AGM is a leading FHA lender and GNMA seller/servicer. Family-owned with over 30 years of experience, the firm has closed over $10 billion in FHA-insured multifamily project loans nationwide. We underwrite, fund, and service all of our loans. Developers and owners can count on AGM to be accessible, transparent, consistent, and ready to lend.



We welcome the opportunity to discuss how AGM can help you close your next deal.
Myles Perkins, President & Owner
443-573-2054 | mperkins@agmfinancial.com

AGM Financial Services, Inc.
Financing Communities with FHA
MARKET RATE & AFFORDABLE

agmfinancial.com
800.729.4266