



## FHA Mortgage Insurance Programs Section 221(d)(4) Apartment New Construction/Substantial Rehabilitation (For-Profit Borrowers)

**Red Mortgage Capital, LLC** is a leading FHA-approved Mortgagee and MAP/LEAN lender and actively provides financing utilizing FHA insurance programs nationwide pursuant to Multifamily Accelerated Processing (MAP) and LEAN underwriting methods.

**Program Purpose:** Provides mortgage insurance for the new construction and substantial rehabilitation of apartment projects, including independent living projects for seniors (age 62 years and older). This program provides for both construction and permanent financing.

**Eligible Borrowers:** Profit motivated single purpose entities (note: a non-profit can be the general partner of a profit motivated single purpose ownership entity).

**Maximum Term:** 40 years plus a construction period.

**Maximum Loan:** Generally, the lesser of:  
1. 90% of replacement cost;  
2. The amount of debt that can be serviced by 90% of net income;  
3. Statutory per unit limits;  
4. 100% of mortgagable transaction costs less grants, public loans and tax credits.

**Interest Rate:** Subject to market conditions. The construction and permanent financing interest rate is set at initial closing.

**Funding:** Qualifies for government insured mortgage-backed securities, direct placement or may be used to credit-enhance tax-exempt bonds.

**Timing:** Section 221(d)(4) processing usually takes about 4 months assuming a MAP One Stage application and about 6 months assuming a MAP Two Stage application.

**Personal Liability:** None. The FHA loan is non-recourse.

**Assumable:** Yes, subject to HUD and lender approval.

**Prepayment:** Typically closed for 3 years then open to prepayment at 107% in year 4, declining 1% per year. Other variations are possible based on market conditions and borrower preferences.

**FHA Application Fees:** 0.3% of the loan amount.

**Mortgage Insurance Premium:** The annual MIP has historically been 0.45% of the outstanding loan amount.

**Builder/Developer's Profit:** A Builder's and Sponsor's Profit and Risk Allowance (BSPRA) equal to 10% of all costs other than land can be utilized for sponsors with identity of interest contractors.

**FHA Inspection Fees:** 0.5% of loan amount (new construction).  
0.5% of costs associated with construction (sub rehab).

**Secondary Financing:** Permitted in the form of a surplus cash note and only from a governmental source.



**Territory:** Nationwide.

**The program has the following additional parameters:**

- This program can be used in conjunction with Low Income Housing Tax Credits and is often used with projects that involve Section 202, Section 236 and Section 8 funding.
- Davis-Bacon prevailing wage requirements apply.
- An Initial Operating Deficit account may be required to cover projected operating shortfalls incurred prior to project stabilization.
- A project generally qualifies as substantial rehabilitation when i) the cost of repairs/improvements exceeds the greater of 15% of the estimated replacement cost after completion of all repairs, or \$6,500 per unit adjusted by the HUD high cost factor for the geographic region; or ii) two or more building systems/components are being replaced along with any components with an estimated remaining life of less than 5 years.
- A working capital deposit (cash or Letter of Credit) equivalent to 2% of the mortgage amount is required by HUD on all new construction and substantial rehabilitation projects to cover various costs.

**For additional information visit [www.redcapitalgroup.com](http://www.redcapitalgroup.com) or contact:**

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In its prequalifying review, **Red Mortgage Capital, LLC** will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.

**RED CAPITAL GROUP** Offices

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