

FHA SECTION 221(D)(4) & SECTION 220

Multifamily New Construction/Substantial Rehabilitation

ELIGIBLE BORROWERS	Single-asset, special-purpose entity, either for-profit or nonprofit.			
ELIGIBLE ASSET TYPE	Market-rate, middle-income ¹ , affordable ² , or rent-subsidized ³ properties. Some age-restricted projects are also eligible.			
COMMERCIAL SPACE	Limited to 25% of net rentable area and 15% of effective gross income (Section 221(d)(4)), or 30% of effective gross income if project is in an eligible Redevelopment Area (Section 220).			
MAXIMUM LOAN	PROPERTY TYPE	MIN. DSCR	MAX. LTC	MIN. UW VACANCY
	Market Rate	1.15x	87%	7%
	Middle Income ¹	1.11x	90%	7%
	Affordable ²	1.11x	90%	5%
	Rent Subsidized ³	1.11x	90%	3%
	If loan amount exceeds HUD's Large Loan limit, different loan parameters apply. The Large Loan limit as of 2025 is \$130MM.			
TERM & AMORTIZATION	Construction period (interest-only) followed by 40-year permanent (fully amortizing).			
INTEREST RATE	Single fixed rate for construction period and term of loan, determined by market conditions at time of rate lock. Rate lock deposit is 0.50% and is refunded at closing.			
MORTGAGE INSURANCE PREMIUM (MIP)	MIP is 0.25% of the loan amount. First year's MIP paid at closing and escrowed monthly thereafter. MIP is calculated annually on the outstanding principal balance.			
PREPAYMENT	10-year step down; 10% in year 1, declining 1% each year thereafter. Alternative structures available.			
TIMING	5-8 months for one-stage application and 8-12 months for two-stage application (subject to deal specifics). Streamlined processing is available for loans receiving Low Income Housing Tax Credits.			
HUD FEES	HUD Application Fee: 0.30% of the loan amount. Reduced to 0.20% (Market Rate) or 0.10% (90+% Affordable) for properties in an Opportunity Zone. HUD Inspection Fee: 0.50% of loan amount (New Construction) or 0.50% of Improvements (Sub Rehab).			
RECOURSE	Non-recourse. Key Principal(s) required to sign "Bad Boy" carve-outs.			
ASSUMABILITY	Fully assumable subject to HUD and lender approval. Fee of 0.05% paid to HUD.			
SECONDARY FINANCING	Permitted as a surplus cash note from a governmental source or seller-financed secondary debt, which is allowed on market-rate transactions below 50% LTC or affordable transactions below 80% LTC.			
ESCROWS	Escrows required for taxes, insurance, MIP, and replacement reserves. Initial Operating Deficit (debt service reserve) and Working Capital escrows are required at initial closing and may be funded with cash or letter of credit. Initial Operating Deficit escrow may be waived on LIHTC transactions. Working Capital escrow is 4% of the loan amount (New Construction), half of which is construction contingency, or 2% of the loan amount (Sub Rehab) with contingency accounted for separately.			
ADDITIONAL CONSIDERATIONS	<ul style="list-style-type: none"> Davis-Bacon prevailing wage rates apply. 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 an identity of interest general contractor. For affordable¹ and rental-assisted² transactions a mortgageable developer fee in lieu of BSPRA is permitted. Substantial Rehabilitation defined as projects with an "Aggregate Cost" of over \$53,859/unit (up to \$80,789/unit in non-contiguous U.S.) as of 2025. This figure is adjusted annually for inflation. 			

¹Middle Income defined as: properties with at least 50% of units restricted at up to 120% of the Area Median Income (AMI). Restricted units must be secured by a use restriction and monitored by a state or local government entity annually for a period of at least 10 years; however, a term of no fewer than 5 years may be approved. Not available for Section 220.

²Affordable defined as: (a) properties that have a recorded regulatory agreement in effect for at least 15 years after final endorsement, and (b) properties that meet at least the minimum Low Income Housing Tax Credit (LIHTC) restrictions of 20% of units at 50% of AMI, or 40% of units at 60% of AMI, with economic rents (i.e. portion paid by tenants) on those units no greater than LIHTC rents (i.e. properties need not use LIHTCs to be considered affordable so long as they comply with (a) and (b)).

³Rent Subsidized defined as: properties that have at least 90% of units supported by a project based rental assistance contract. The contract must ensure affordability restrictions for a period of at least 15 years.