

# Mortgage Insurance for Rental Housing for Urban Renewal and Targeted Redevelopment\*

Arbor provides FHA-insured, long-term, fixed-rate financing for new construction and substantial rehabilitation of multifamily projects nationwide. This program provides for both construction and permanent financing for projects in urban renewal areas and other areas where local governments have undertaken designated revitalization activities. Applications are typically processed in two stages: preliminary application, followed by firm application. Affordable/rental assisted projects and HUD-experienced development teams may request a “straight to firm” application, saving significant time by eliminating the preliminary application stage.

## Eligible Borrower

Single asset entity (for-profit or non-profit)

## Eligible Asset Type

New construction or substantial rehabilitation of apartment properties located in urban renewal areas. Apartments designated for the elderly or limited to elderly occupancy are not permitted.

## Maximum Loan Amount

For loans less than \$130M, the lesser of:

1. **LTC:** 85% of total eligible development costs (for market rate); 87% for LIHTC-restricted (with affordable rents that are at least 10% below market); 90% for properties with at least 90% rental assistance; development cost includes value of land for new construction and as-is value of property for substantial rehabilitation;
2. **Statutory Limits:** FHA mortgage statutory per-unit limits adjusted for local high-cost factor; *or*
3. **DSCR:** An amount that achieves a minimum debt service coverage: a) 1.176x DSC for market-rate properties; b) 1.15x DSC for LIHTC-restricted (with affordable rents that are at least 10% below market); and c) 1.11x DSC for properties having at least 90% project-based rental assistance

## Loan Term and Amortization

Construction loan period (interest-only), followed by 40-year permanent (fully amortizing). Interest Rate is fixed prior to closing.

## Underwriting Occupancy

Maximum economic underwritten occupancy of:

- 93% for market-rate or LIHTC-restricted properties with rents are less than 10% below-market
- 95% for LIHTC-restricted properties with rents at least 10% below market
- 97% for projects with 90% or greater rental assistance

## Construction Escrows

Working Capital (2%- 4% of Loan Amount) and Initial Operating Deficit; balances released after six consecutive months of break-even operations. These escrows can be cash or letters of credit.

## Ongoing Escrows

Monthly deposits required for taxes, insurance and replacement reserves

## HUD Mortgage Insurance Premium (MIP):

Annual MIP Rates:

- Market-rate properties: 0.70%
- Affordable properties: 0.35%

- Broadly Affordable or energy-efficient properties: 0.25%

## Prepayment

Permitted during permanent period. Typically, 10% in year one, declining 1% per year thereafter; other prepayment options available subject to market conditions.

## HUD Application Fee

0.30% of loan amount (non-refundable). Half of the fee is paid at pre-application and the other half at firm application. For affordable transactions, the full fee is paid at firm application. HUD Application Fee is reduced to 0.20% total for qualified opportunity zone properties (and 0.10% for Broadly Affordable).

## HUD Inspection Fee

0.50% of loan amount (new construction)  
0.50% of costs associated with construction (substantial rehabilitation)

## Recourse

Non-recourse – construction and permanent phase

## Assumable

Subject to Arbor and HUD approval and payment of assumption fee

## Secondary Financing

Permitted in the form of a surplus cash note and only from a governmental source. The only exception to this is seller-financed secondary debt, allowed on market-rate transactions that are less than 50% LTC and affordable transactions that are less than 80% LTC.

## 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 an identity-of-interest general contractor. For affordable or rental-assisted transactions, a mortgageable developer Fee in lieu of BSPRA is permitted.

## Required Reports

Market Study, Appraisal, Architect/Cost Review, and Phase I Environmental (Phase II if necessary), PCNA (substantial rehab); CPA reviewed borrower financials of last fiscal year (substantial rehab)

## Good Faith Deposit

Negotiable based on project type and loan size

## Expense Escrow

Yes, sufficient to cover Arbor's expenses and third-party report costs

## Origination Fee

Negotiable

## Legal/Closing Fee

Borrower pays Arbor's counsel fee and miscellaneous closing costs

## Rehabilitation Qualifications

Repairs must exceed \$19,293 per unit (adjusted for local high-cost factor)

## Commercial Space

Maximum 25% of gross floor area and maximum 30% of effective gross income; 20% vacancy rate applied

## Davis-Bacon

Davis-Bacon labor standards and wage requirements apply to construction and rehabilitation work

## The Program has the Following Additional Parameters

- All transactions must participate in a concept meeting with HUD prior to application submittal.
- Streamlined processing is available for loans involving LIHTCs.
- Properties must be able to demonstrate an ability to achieve stabilized occupancy within 18 months of construction completion (special exception may be given to high-rise buildings)
- An initial operating deficit escrow (cash or letter of credit) may be required to cover projected operating shortfalls incurred prior to project stabilization. Typically, greater of appraisal or underwriting conclusions, four months debt service for garden apartments or six months of debt service for elevator buildings subject to single Certificate of Occupancy issuance, or 3% of the mortgage amount. Loans in excess of \$25 million have higher IOD requirements. For in-place rehab projects the IOD may not be required.
- A Working Capital deposit (cash or letter of credit) equivalent to 4% of the loan amount is required by HUD on all new construction projects to cover various costs; 2% of which will be a construction contingency for cost overruns and approved change orders. The Working Capital for substantial rehabilitation projects is only 2% of the loan amount as the development budget will have a separate construction contingency amount. Commercial space is limited to 25% of total net rentable area and commercial income to 30% of effective gross project income.
- A Project Capital Needs Assessment (PCNA) will be required every 10 years
- A schedule of real estate owned by principals is required and reviewed
- Loans in excess of \$130 million have slightly lower LTC limits and slightly higher debt service coverage requirements

*\*The property must be located in either a concentrated development area approved by the applicable HUD Multifamily Regional Center or Satellite Office or one of the following:*

1. Existing slum clearance and urban redevelopment projects covered by a Federal aid contract before the effective date of the Housing Act of 1954.
2. Opportunity Zones.
3. An approved urban renewal area under Title I of the Housing Act of 1949.
4. Disaster urban renewal projects assisted under Section III of the Housing Act of 1949 as amended.
5. An area of concentrated code enforcement being carried out under Section 117 of the Housing Act of 1949. The Multifamily Regional Center or Satellite Office will consider proposals in concentrated development areas in which concentrated housing, physical development and public service activities are being carried out in a coordinated manner, pursuant to a locally developed strategy for neighborhood improvement, conservation or preservation. Locally developed strategies may be informal, but must do all of the following:
  - Provide for a combination of physical improvements, necessary public facilities and services, housing programs, private investment, and citizen self-help activities appropriate to the needs of the area;
  - Coordinate public and private development efforts; and
  - Provide sufficient resources to produce substantial long-term improvements in the area within a reasonable amount of time, considering the severity of the area's problems.