

FHA® 221(d)(4)

New Construction and Substantial Rehab

Arbor provides FHA-insured, long-term, fixed-rate financing for new construction or substantial rehabilitation of multifamily projects nationwide. Applications are typically processed in two stages: preliminary application, followed by firm application. Affordable transactions and HUD-experienced development teams may request a “straight to firm” application, saving significant time by eliminating the preliminary application stage.

Loan Term and Amortization

Construction loan period (interest-only), followed by 40-year permanent (fully amortizing)

Maximum Loan Amount

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

1. **LTC:** 87% of total eligible development costs (for market-rate); 90% for LIHTC-restricted (with affordable rents that are at least 10% below market) or 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) 1.15x DSC for market rate properties; b) 1.11x DSC for LIHTC-restricted (with affordable rents that are at least 10% below market); or properties having at least 90% project-based rental assistance

Interest Rate

Fixed-rate subject to market conditions at time of rate lock

Eligible Properties

New construction or substantial rehabilitation of market-rate, affordable, or rental-assisted apartment properties

Rehabilitation Qualifications

Repairs must exceed \$19,293 per unit (adjusted for local high-cost factor and project’s # of units)

Eligible Borrower

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

Underwriting Occupancy

Maximum economic underwriting occupancy of:

- 93% for market-rate properties (i.e., at least 20% market-rate units, or LIHTC unit whose rents are < 10% below market rents)
- 95% for LIHTC restrictions on at least 80% of units at rents at least 10% below market
- 97% for properties having at least 90% rental assistance, or 90% LIHTC set aside with rents at least 10% below market

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 (minimum \$250/unit/year)

Recourse

Non-recourse – construction and permanent

Commercial Space	Maximum 25% of gross floor area and maximum 15% of effective gross income; 20% vacancy rate applied
Required Reports	Market Study, Appraisal, Architect/Cost Review, and Phase I Environmental (Phase II if necessary); PCNA (substantial rehab); CPA-reviewed borrower financials or last fiscal year (substantial rehab)
Prepayment	Typically, 10% year one, declining 1% per year; other prepayment options available, subject to market conditions
Assumable	Subject to Arbor and HUD approval and payment of assumption fee
Good Faith Deposit	Negotiable based on property type and loan size
Expense Escrow	Yes, sufficient to cover Arbor's expenses and third-party report costs
Origination Fee	Negotiable
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	0.5% of the mortgage amount for new construction; 0.5% of the cost of repairs for substantial rehab
Legal/Closing Fee	Borrower pays Arbor's counsel fee and miscellaneous closing costs
Davis-Bacon	Davis-Bacon labor standards and wage requirements apply to construction and rehabilitation work
HUD Mortgage Insurance Premium (MIP)	Annual MIP Rates <ul style="list-style-type: none"> • Market-rate properties: 0.65% • Affordable properties: 0.35% • Broadly affordable or energy-efficient properties: 0.25%