FIRST HOUSING
SERVICE • FINANCE • COMPLIANCE

FHA/HUD Section 223(f)
LIHTC Pilot Program

Apartments - Permanent Financing for Affordable Housing Section 223(f) - LIHTC Pilot Program

DESCRIPTION

First Housing Development Corporation provides competitive financing for affordable rental apartments with 4% or 9% Low Income Housing Tax Credits (LIHTCs) including projects with Section 8 HAP Contracts.

ELIGIBILITY / PURPOSE

ELIGIBLE PROPERTIES	PURPOSE
Newly constructed stabilized properties so long as building permits are pulled prior to September 18, 2014.	Permanent financing processed under waiver of three year rule.
Re-syndicated tax credit projects.	Permanent financing for acquisition and/or refinance with moderate rehabilitation up to $40,000/unit.
Affordable apartment buildings with 90% of units with Project-Based Rental Assistance with new LIHTCs.	Permanent financing for acquisition and/or refinance with moderate rehabilitation up to $40,000/unit.

LOAN STRUCTURE

MAXIMUM LOAN: Loan cannot exceed $25 million. Amount based on the following criteria:

Acquisition
Lessor of: (i) 87% LTV; (ii) 87% of acquisition plus transaction costs; or (iii) Statutory unit limitations for projects with a minimum of 90% Rental Assistance. Percentage reduces to 85% for Affordable Rate projects.

Refinance
Lessor of: (i) 87% LTV; (ii) 100% of existing debt plus transaction costs, if LTV exceeds 80%; or (iii) Statutory unit limitations for projects with a minimum of 90% Rental Assistance. Percentage reduces to 85% for Affordable Rate projects.

DEBT SERVICE COVERAGE: 1.15 for projects with 90% or greater Rental Assistance.
1.1765 for Affordable Rate projects.

AMORTIZATION: Up to 35 years (not to exceed 75% of remaining economic life).

RECOURSE: Loan is nonrecourse.

RATES: Fixed rate determined by market rates at the time of rate lock.

MIP: 1% of the mortgage amount is payable at closing. Thereafter, the MIP is escrowed monthly based on a rate established by FHA. The rate is fixed at closing.

OPTIONAL FEATURES

PREPAYMENT: Any prepayment lock-out or penalty periods negotiable with Investor.
5-year prepayment prohibition (with certain exceptions).
No Yield Maintenance required.

ASSUMABILITY: Fully assumable with HUD's and Lender's consent.

SUBORDINATE FINANCING: Allowable subject to FHA criteria (May exceed 92.50% LTV when combined with HUD Insured First Mortgage.

TIMING

- Sixty days from submission of application to firm commitment, closing thereafter.

OTHER PILOT PROGRAM DIFFERENCES

- Davis Bacon Wages not required (there are some cases where other subsidy sources may require).
- Construction period may exceed 12 months.
- Plans and Specs may be required based on proposed Scope of Work.
- General Contractor not required for some transactions.
- Architect required when Scope of Work exceeds $15k/unit in rehab and the Architect determines if a General Contractor is necessary.
- Developer Fees can be included as a mortgagable cost in the pilot program (not to exceed 15 percent or Housing Finance Agency requirements).
- Achievable LIHTC rents must be at least 10 percent below market.
- New 20-year HAP Contract if currently Section 8.
- The allowable tenant relocation period may not exceed 30 days.
- Projects with a minimum of 90% Rental Assistance can utilize the Band of Investment approach when determining cap rate for valuation.

RECENT LIHTC PILOT PROGRAM POLICY CHANGES

- Sellet take-back notes and deferred developer fees are allowed as soft debt without violating the 92.5% rule.
- Gradual pay-in of tax credit equity permitted so long as 20% of LIHTC equity is paid in at closing and remainder is disbursed in pari passu proportions with loan proceeds.
- HUD required completion assurance escrow reduced from 20% to 10%. Can be replaced by similar escrow required by LIHTC Investor.
- Tax Credit or bond cap allocation no longer required with submission of firm application.

KEY POINTS

- Project must have existing Tax Credit or Bond Cap allocations, either 4% or 9% credits. Market-rate projects without Section 8 subsidies, including those which are to be initially converted into tax credit deals are not acceptable. HOWEVER, a waiver can be requested and HUD will accept the application subject to owner securing the allocation prior to the Firm Commitment. Hub Directors can also waive this requirement and issue a commitment with the condition that the owner secures the allocation prior to closing.

- For projects without Section 8 contracts, the lesser of Tax Credit ceiling rents and attainable rents used in underwriting must be at least 10% below market comparables for each unit type. Rule still applies in markets where Tax Credits are typically higher than 10% below market rents.

- Repairs can’t exceed $40,000/unit or include two major building systems that need to be rehabbed. Otherwise, project must be complted through the 221(d)(4) program.

- Projects must achieve Sustaining Occupancy for a period of 3 consecutive months immediately prior to the date of Endorsement and a debt service reserve of at least 4 months of Principal, Interest and MIP must be funded at Closing. Alternatively, the reserve is not required if the project has sustained an average minimum 85% physical occupancy for 6 consecutive months prior to application submission, and that level is maintained through application processing as confirmed by a Certified Rent Roll submitted within 30 days of Endorsement. The reserve, if required, will be released once the project has maintained break-even occupancy for 6 consecutive months after Endorsement.

- For projects without Section 8 contracts, underwritten EGI can’t exceed 105% of historical EGI.

- For projects without Section 8 contracts, post rehab expenses can’t be less than 90% of historical, with adjustments for R&M, capital expenditures and energy improvements.