ROCKPORT MORTGAGE CORPORATION

221d4 Presentation

National Housing & Rehabilitation Association

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Features of the 221(d)(4) New Construction and Substantial Rehabilitation Program.

- THE 221D4 LOAN PROGRAM PROVIDES BOTH THE CONSTRUCTION LOAN AND THE PERMANENT LOAN IN A SINGLE FINANCING.
- THERE IS NOT A REQUIREMENT TO GET A SEPARATE CONSTRUCTION LOAN AND A SEPARATE PERMANENT LOAN.
- THE BORROWER DOES NOT HAVE TO DEAL WITH A SEPARATE CONSTRUCTION LENDER AND A SEPARATE PERMANENT LENDER THAT VERY WELL MAY HAVE DIFFERENT UNDERWRITING CRITERIA OR PARAMETERS.

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- The single combined loan eliminates interest rate risk on the permanent loan, does not require multiple fees to be paid, and eliminates lease up risk.

- The construction loan seamlessly converts to the permanent loan upon completion of construction after final endorsement.

- There is not a risk of having the loan reduced if the rents upon completion of construction are less than the proforma rents in the underwriting or if it takes longer to hit stabilized occupancy. Generally, the equity requirement of the borrower is known once and for all.

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- The loan can cover 90% of HUD's defined "Replacement Cost" (100% if non-profit), which can be in excess of 90% of actual cash cost.

- Replacement cost includes all of the hard costs for on site work, the architect's design and supervision fees, all required soils testing, third party report costs, ect., all of the financing costs including a fully capitalized interest escrow to pay debt service during construction, all of the HUD fees and our fees, tax and insurance during construction, legal fees, organizational fees, legal costs, and a 10% builder and sponsor's profit. The land is included at it's appraised value for new construction. For substantial rehab, the "as is value" of the property before rehab is included in replacement cost.

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- Both the Construction Loan and Permanent Loan are non-recourse.

- A 1.11 Debt Service coverage ratio is used for calculating the debt service mortgage. The rents and expenses that are used as the basis of the proforma NOI are the post rehab numbers for Substantial Rehab, and current market rents for new construction projects.

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What does it take to qualify for "Substantial Rehabilitation" under the HUD 221(d)(4) Program?

Substantial Rehabilitation: a property qualifies as substantial rehabilitation if it meets one of the following criteria:

1. The cost of repair, replacements and improvements exceeds the greater of 15% of the estimated replacement cost after completion of all repairs, replacements, and improvements, or $6500 per unit adjusted by the local HUD Field Office high cost of percentage for that area. Say $12,000/unit and up.

2. Two or more major building components are being substantially replaced. Additions are permitted in substantial rehabilitation projects, but the costs for the additions of new units (not building component additions) are not included in the eligibility test.

We had a project qualify under this criteria where about $10,000/unit was expended.

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- The Loan will be determined based upon the smallest of three constraints, namely the debt service mortgage, 90% of replacement costs, and the statutory limits (usually only comes into play for Mid-Rise and High-Rise steel construction projects in urban areas). The stat limits hardly ever come into play in a sub-rehab financing.

- The loan is NOT value constrained.

- HUD does not impose or require any rental affordability restrictions through this program.

- The HUD 221(d)(4) Program permits an equity take-out, when supported by the HUD Mortgage Credit analysis. This can be an attractive feature of a 221(d)(4) sub rehab/refinance where there is a difference between the “as is” value before rehab and existing debt.

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- For a substantial rehabilitation project, there is the possibility that the borrower will be able to retain all of the income during construction without having a mortgage reduction at final endorsement. Remember that the debt service on the mortgage during construction is funded out of the mortgage proceeds.

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- The Mortgage is almost always based upon cash flow and cost. I am not aware of any other lending option that is like this. This is a critical reason why this program is a great option for affordable housing deal where the costs are the same for an affordable projects as a market rate project, but the affordable NOI (thus value) is low. The affordable deals can avail themselves of tax exempt financing.

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- The Processing of a Market Rate Project and an Affordable Housing Project from the HUD standpoint are essentially the same.

- The Prepayment structure on the loan is flexible.

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- In short, the program provides for the largest, non-recourse loan available in the market, at a great rate, with flexible prepayment terms and is assumable. No need for two loans, and the elimination of the interest rate risk for the takeout loan.

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- Pros and Cons of One Step and Two Step Processing.
  - One Step-Direct to Firm Submission

Pros

Requires only one 60 day period for HUD Review.

Cons

- Very high risk strategy for borrower for new construction or gut rehab projects since many issues could derail the project, namely proposed underwriting rents and expenses. If it is a Section 8 project, this risk is reduced.
- Very expensive since the borrower must contract for pay for final architectural plans and specs and the application fee before having feedback from HUD on critical issues.

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- TWO STEP- PRE APP AND FIRM SUBMISSION
  - PROS
    - Limited architectural work required for pre-application.
    - No Application Fee required for Pre-App Step
    - Limited number of exhibits required
    - Full appraisal not required
    - The decision variables in the invitation letter from HUD go a long way to determining whether or not the deal will work: These are:
      - RENTS
      - EXPENSES
      - NUMBER OF UNITS AND UNIT MIX
      - OTHER INCOME
      - ENVIRONMENTAL SUITABILITY OF THE SITE
    - With this information plus a rough estimate of construction costs, and an assumed interest rate the developer can determine if the deal works without incurring major costs.

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- Cons:
  - There are two 45 day time frames involved for HUD Processing, so it will require more time overall.

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Waterford Place at Hackett Hill
HUD 221(d)(4) - New Construction

RMC provided a construction and permanent loan of $44,000,000, under the HUD 221(d)(4) program. Waterford Place at Hackett Hill, consists of 384 garden style apartment units in eight three-story buildings. Project amenities include a clubhouse with an exercise room, an indoor pool, tennis courts, a media center, and a business center. Unit amenities include a balcony or patio, vaulted ceilings, and a full washer and dryer. The unit finishes are of exceptional quality. The project is located on a 66.5 acre site. This HUD new construction/permanent loan was the largest HUD 221(d)(4) loan ever closed in New England.

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New Canonchet Cliffs Apartments
HUD 202/221(d)(4)

RMC provided financing of $4,993,800 under the HUD 221(d)(4) program to New Canonchet Cliffs Apartments. The FHA/GNMA guarantee provides the credit enhancement for $6,000,000 in tax exempt bonds issued by the Providence Housing Authority. The project financing also involved 4% low income tax credits. The project previously consisted of two 202 projects. This loan will provide financing for the substantial rehabilitation of the 114 unit project and will preserve this project for the long term.

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Charles Place Apartments

HUD 221(d)(4) - Substantial Rehabilitation

RMC provided a $10,051,300 loan for the refinancing and substantial rehabilitation of Charles Place Apartments. The project had previously been financed under HUD's 236 program for low and moderate income elderly households, and receives project-based Section 8 assistance for 100% of the units. The purpose of the refinancing was to complete upgrades to the project that included the complete replacement of the HVAC and electrical system with a state of the art gas fired micro turbine system. The refinancing preserved the affordability of the existing 200 units of elderly housing through a long term use agreement. The loan also provided an equity takeout.

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Thank you.

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