

## FHA SECTION 223(f) - LIHTC PILOT PROGRAM

Property Type:

Affordable multi-family rental apartments with 4% or 9% Low Income Housing Tax Credits (LIHTCs).

Eligibility and Purpose:

Eligible Properties:	Purpose:
Newly constructed or stabilized properties	Permanent financing processed under waiver of three year rule
Re-syndicated tax credit projects	Permanent financing with moderate rehabilitation
Affordable apartment buildings with 90% of units with project-based rental assistance	Permanent financing for acquisition and/or refinance with moderate rehabilitation

Maximum Loan Amount and Loan to Value:

Loan cannot exceed \$25 million.

Property Type:	LTV:	Refinance LTC:	Acquisition LTC:	Debt Service Coverage:
Subsidized*:	87%	100%	90%	1.15x
Affordable**:	85%	100%	90%	1.17x

Interest Rate:

Fixed rate subject to market conditions at rate lock.

Maximum Term/Amortization:

35 years, or 75% of remaining useful life, from initial principal payment. Level principal and interest payments.

Assumability:

Yes, with FHA approval.

Prepayment:

Commonly either:

- A 5-year lockout followed by a prepayment penalty of 5% in the sixth year and declining 1% per year, or
- A similar combination of lockout and penalties which cover a 10-year period post closing

Fees & Expenses:

Borrower is responsible for \$20,000-\$25,000 in due diligence fees. At time of closing, these fees and all other closing costs may be included in the loan amount.

Timing:

Sixty to ninety days from application to firm commitment. Thirty days to close. Pilot applications receive priority over other applications in federal office.

Other Pilot Program Differences:

- Plans and specs only required if needed for proposed work scope
- General contractor not required
- Davis Bacon wages not required
- Construction period may exceed 12 months

\*Greater than 90% of units are subsidized, e.g. Section 8

\*\*Regulatory agreement in place and resident income restricted, e.g. LIHTC

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### Key Program Updates

- Developer fees can be included as a mortgagable cost in the pilot program (not to exceed 15%).
- The pilot qualification criteria regarding market rent advantage has been relaxed – previously, a project was ineligible if the **maximum LIHTC rent** that could be charged under the program was not 10% below market rents. This has been revised so that **achievable LIHTC rents** must be at least 10% below market.
- The allowable tenant relocation period has been increased from two weeks to 30 days.
- Assisted projects (90% + Section 8 HAP contract) can now utilize the band of investment approach when determining cap rate for valuation.
- There is a requirement to fund 100% of the repair escrow at closing. The additional 20% completion assurance can be deferred on a case-by-case basis.
- Rental Assistance Demonstration (RAD) can be eligible for the pilot, as long as 90% of a project's units are assisted.
- Elderly age restrictions cannot be waived. Age restricted 223(f) projects may be limited to tenancy by heads of household aged 62 or older, but discrimination against nonelderly family members is prohibited. This requirement does not match the 55 or older definition that many state LIHTC allocating agencies use for elderly housing.