

Q1: Is mortgage insurance required to be paid during the life of the loan or does it go away at some point when the principal amount drops to a certain percentage?

A1: Yes – for the life of the loan.

Q2: It appears that there are not personal guarantees, rather reserves for Operating Deficits and working capital. Can these be capitalized and when do they get released?

A2: They are generally secured with letters of credit and are released at stabilization if they aren't called

Q3: Is the bond requirement finance-able? What development costs cannot be finance-able?

A3: Costs for performance and payment bond are financeable; a letter of credit can also be posted by the General Contractor in lieu of a bond. Off-site costs for hard work (water and sewer lines, streets, curb cuts, etc.) and contractor's profit can't be financed.

Q4: What general contractor fees are allowed?

A4: General requirements and site specific overhead costs (trailer, temp. utilities, etc.)

Q5: Does the debt service coverage impute an expense number, or is it based on actual expenses on the property?

A5: Based on actual expenses.

Q6: Can a developer also have a contractor entity?

A6: Yes.

Q7: How is the developer entity underwritten - with no guarantees, is it all based on experience?

A7: Experience and strength of financial statement to cover costs during construction.

Q8: In order to start an apartment project, can you start one with conventional while you are applying for a 221 d4 and combine it with a 223 f program?

A8: No – as a general rule, properties need to be three years old to be eligible under 223(f). That being said, today, because of the frozen state of the credit markets, on a case-by-case basis, HUD will consider waivers of the three year rule to provide permanent take-outs for projects coming out of construction.

Q9: Do you need to show control of the land when initially applying for either of these programs?

A9: Yes – either through an option, purchase contract, deed, deed of trust or some other form of site control.

Q10A: What impact do environmental issues have on the ability to get a D4?

A10A: Environmental issues can have significant impacts on development costs depending on what they are and where they are; conceivably, mitigation costs could reduce the appraised value of the land by those costs.

Q10B: Are there prepayment penalties and lockout?

A10B: Yes. In the current market, lockouts will run 2-3 years with declining prepayment penalties over 10 years from closing of the permanent loan. (e.g., If 2 year lockout, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%)

Q11: What is the allowed profit & overhead % for the FHA 221d4 program?

A11: No profit; General Requirements are set @ 2%; site specific overhead costs are a function of the project variables, i.e., new construction vs. substantial rehab, construction time,, stick vs. concrete and steel vs. modular, urban vs. suburban, etc.

Q12: You mentioned you have preferred banks and vendors; how do you get to be a preferred vendor or property management company similar to what Kephart has done to be a preferred architect with HUD? Once you are preferred; do they send you a list of up and coming projects or will they send a list of approved vendors (like property management companies) to developers? How does that work?

A12: It's not a preferred status so much as it is acceptable and acceptance comes with demonstration of capacity on paper and then from experience. Experience is not a prerequisite for participation in projects with HUD/FHA insured loans but evidence of performance capacity is; it enhances approvals when it's there. Lenders and Vendors generate their own business via their relationships, referrals and marketing programs; as Federal employees, HUD/FHA staff is precluded from making specific recommendations.

Q13. In the example you used of a vertically integrated company where the Sponsor and General Contract have common ownership, you indicated a method of compensating the GC, because no GC fees are available in the 221(d)4 program, is to make the GC entity a Limited Partner and then buy back the LP interest by the time construction is completed.

A13: Yes – in those cases, the Sponsor/GC can easily demonstrate the presence of the required identity of interest; see A13A, B & C below.

Q13A. Do you calculate the value of the LP interests as a % of total construction costs, similar to a contractor fee?

A13A: Yes.

Q13B: If so what % value is acceptable to HUD or is this structure of no concern to HUD?

A13B: It's done as a side agreement outside the loan and since HUD not a party to it, they never see it.

Q13C. What are the sources of funds for buying out the LP interest of the GC?

A13C: Usually external equity. In a couple of projects I'm working on now, the 3rd party GC is staying in the deal and sharing in cash flow and upside on sale or conversion.

Q13D. In a situation where a Sponsor is contracting with a 3rd party, non-related contractor to build the project, how does the contractor get compensated for the job since there is no line item for the contractors' fees?

A13C: Via the side agreement referenced above.