Federal Financing Options for Multi-Family Housing Projects for use with Private Activity Bonds and 4% Low-Income Housing Tax Credits

HUD Multi-Family Main Page
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh

HUD Multi-Family Programs Description Page
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/progdesc

Multifamily new construction and substantial rehabilitation projects are currently insured under the Section 221(d)(3) and Section 221(d)(4) programs.

Mortgage Insurance for Rental and Cooperative Housing: Section 221(d)(3) and Section 221(d)(4)

Summary

Section 221(d)(3) and 221(d)(4) insures mortgage loans to facilitate the new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, elderly, and the handicapped. Single Room Occupancy (SRO) projects may also be insured under this section. Beginning in FY2013, the Department has suspended the Section 221(d)(3) program unless the project to be financed also receives Low Income Housing Tax Credits (LIHTC). Without LIHTC the program would require positive credit subsidy which is Congressionally appropriated and higher Mortgage Insurance Premiums (MIP) than Section 221(d)(4). Section 221(d)(4) can be utilized by non-profit mortgagors at much less cost, but with virtually the same benefits as with Section 221(d)(3), including recognition of a developer's fee.

Purpose

Section 221(d)(3) and Section 221(d)(4) insures lenders against loss on mortgage defaults. Section 221(d)(3) is used by nonprofit sponsors and Section 221(d)(4) is used by profit-motivated sponsors. Both programs assist private industry in the construction or rehabilitation of rental and cooperative housing for moderate-income and displaced families by making capital more readily available. The program allows for long-term mortgages (up to 40 years) that can be financed with Government National Mortgage Association (GNMA) Mortgage Backed Securities.

Type of Assistance

FHA mortgage insurance for HUD-approved lenders.

Eligible Activities

Insured mortgages may be used to finance the construction or rehabilitation of detached, semidetached, row, walkup or elevator-type rental or cooperative housing containing five (5) or more units. The program has statutory mortgage limits which vary according to the size of the unit, the type of structure and the location of the project. The principal difference between the (d)(3) and (d)(4) programs is the amount of insured mortgage available to non-profit and profit motivated sponsors. Under Section 221(d)(3), nonprofit sponsors or cooperatives may receive an insured mortgage up to 100 percent of HUD/FHA estimated replacement cost of the project. Profit motivated sponsors using Section 221(d)(4) and all types of sponsors under Section 221(d)(4) can receive a maximum mortgage of 90 percent of the HUD/FHA replacement cost estimate. Contractors for new construction and substantial rehabilitation projects must comply with prevailing wage standards under the Davis-Bacon Act. Section 221(d)(3) mortgages require appropriated credit subsidy, which is limited.

Eligible Borrowers:

Eligible mortgagors include public, profit-motivated sponsors, limited distribution, nonprofit cooperatives, builder-seller, investor-sponsor and general mortgagors.

Eligible Customers:

All families are eligible to occupy dwellings in a structure whose mortgage is insured under this program, subject to normal tenant selection. There are no income limits. Projects may be designed specifically for the elderly or handicapped.

Application:

Sections 221(d)(3) and 221(d)(4) are eligible for Multifamily Accelerated Processing (MAP). The sponsor works with the MAP-approved lender who submits required exhibits for the pre-application stage. HUD reviews the lender's exhibits and will either invite the lender to apply for a Firm Commitment for mortgage insurance, or decline to consider the application further. If HUD determines that the exhibits are acceptable, the lender then submits the Firm Commitment application, including a full underwriting package, to the local Multifamily Hub or Program Center for review. The application is reviewed to determine whether the proposed loan is an acceptable risk. Considerations include market need, zoning, architectural merits, capabilities of the borrower, availability of community resources, etc. If the proposed project meets program requirements, the local Multifamily Hub or Program Center issues a commitment to the lender for mortgage insurance.

Applications submitted by non-MAP lenders must be processed by HUD field office staff under Traditional Application Processing (TAP). The sponsor has a preapplication conference with the local HUD Multifamily Hub or Program Center to determine preliminary feasibility of the project. The sponsor must then submit a site appraisal and market analysis (SAMA) application (for new construction projects), or feasibility application (for substantial rehabilitation projects). Following HUD's issuance of a SAMA or feasibility letter, the sponsor submits a firm commitment application through a HUD-approved lender for processing. If the proposed project meets program requirements, the local Multifamily Hub or Program Center issues a commitment to the lender for mortgage insurance.

Link for 221(d)(3) and (4) Programs
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/progdesc/rentcoophsg221d3n4

Program instructions are in the HUD Handbooks and Notices and Forms which can be found on HUDclips (HUD Client Information and Policy Systems)
http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips

Prospective applicants should contact the local HUD Multifamily Hub or Program Center with jurisdiction for the property. Production and asset management activities for the State of Utah are managed through the Denver Office.

U.S. Department of HUD
Denver Multifamily Hub
1670 Broadway
Denver, CO 80202-4801
Phone: (303) 672-5343
Fax: (303) 672-5388
TDD: (303) 672-5113

Fannie Mae Program

Multi-Family Page
https://www.fanniemae.com/multifamily/index

(See PDF document "Fannie Mae MF Overview" for an expanded overview of this Program.)

Multifamily Business
Fannie Mae provides financing for apartment buildings, condominiums, or cooperatives with five or more individual units through a nationwide network of Delegated Underwriting and Servicing (DUS) and other lenders. The majority of their business supports workforce housing, which is affordable to families with annual incomes at or below the median income of the areas in which they live.

They serve a wide spectrum of the multifamily market, including conventional, rent-restricted, cooperatives, seniors, student housing and manufactured housing communities. They also finance small and large loans, structured transactions such as credit facilities and seasoned loan pools.

Fannie Mae's Multifamily business purchases multifamily mortgage loans originated by lenders for cash, guarantees multifamily loans in securities issuances and provides credit enhancement of bonds issued by state and local housing finance authorities that finance multifamily housing. (See PDF document "Fannie Mae TEB Credit Enhance" for additional information.) Multifamily's flagship business is its Delegated Underwriting and Servicing program ("DUS"). As noted by the criteria below, this program aligns the interests of Fannie Mae with those of participating lenders by requiring the lenders to share in the risk of loss associated with the multifamily loans they sell to Fannie Mae.

Criteria Requirements

1. Workforce Housing. Fannie Mae focuses on providing affordable, quality housing for America's workforce. Over 85% of the multifamily units financed by Fannie Mae from 2009 to 2011 were affordable to families at or below the applicable area median income.
2. Skin in the Game. Fannie Mae requires borrowers to put cash equity into financed properties. Lenders that sell loans to Multifamily must share in any losses so that both parties have a stake in the economic outcome and their interests are aligned.
3. Cash is King. Fannie Mae requires lenders to underwrite multifamily loans for sale to Fannie Mae based upon actual rather than projected income.
4. Delegation. Fannie Mae delegates underwriting and servicing responsibility to risk sharing lenders, which aligns risk, provides certainty of execution and leverages the lenders' capabilities.

In addition to providing liquidity to traditional apartment projects, Fannie Mae participates in specialized types of multifamily housing across the range of rental categories, including:

- Seniors housing — financing for properties that include skilled nursing, independent living and assisted living facilities.
- Cooperative apartments – financing for cooperative corporations.
- Manufactured housing parks — financing of land-leased manufactured parks and related amenities.
- Student housing — financing for apartment complexes built exclusively for students, located near major colleges and universities.
- Affordable housing — financing for housing that is rent-restricted and subsidized by federal, state or local government.

Freddie Mac Program

Main Page
http://www.freddiemac.com/corporate/doing_business.html?intcmp=DB

Multi-Family Main Page
http://www.freddiemac.com/multifamily/index.html?intcmp=MFMAIN-T

Freddie Mac, one of the nation's largest buyer's of home mortgages, is a stockholder-owned corporation chartered by Congress in 1970 to provide liquidity, stability and affordability to the nation's housing and rental markets.

Freddie Mac's Multifamily Division supports the acquisition, refinance, rehabilitation and construction of apartment communities across America.

Freddie Mac provides a full range of competitively priced, reliable mortgage products for the acquisition, refinance or moderate rehabilitation of multifamily communities. "Targeted affordable housing loans" include:

- Mortgages on properties subject to low-income housing tax credits.
- Mortgages on properties that receive federal subsidies.
- Transactions in which Freddie Mac will credit enhance a mortgage that backs tax-exempt bonds, a trust certificate or other instrument related to tax-exempt bonds.

Conventional Mortgage Program Offerings:

- Fixed-Rate Mortgage.
- Floating-Rate Mortgage.
- Freddie Mac Student Housing Mortgage.
- Seniors Housing Mortgage.
- Supplemental Mortgage.
- Conventional Structured Transactions.

Targeted Affordable Housing (TAH) Program Offerings:

- 9% LIHTC Mortgage.
- Cash Mortgages with Other Affordability Components.
- Moderate Rehabilitation.
- Section 8 Financing.
- Variable Liquidity Pricing.
- Tax-Exempt Bond Securitization (TEBS).
- Bond Credit Enhancement with Other Affordability Components.
- Bond Credit Enhancement – 4% LIHTC. (See PDF document "Freddie Mac Bond Credit Enhance – 4 LIHTC" for additional information.)

HOME Funds

HOME Fund Main Page
http://www.hud.gov/offices/cpd/affordablehousing/programs/home/index.cfm

HOME is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households.

For rental housing and rental assistance, at least 90 percent of benefiting families must have incomes that are no more than 60 percent of the HUD-adjusted median family income for the area. In rental projects with five or more assisted units, at least 20% of the units must be occupied by families with incomes that do not exceed 50% of the HUD-adjusted median. The incomes of households receiving HUD assistance must not exceed 80 percent of the area median. HOME income limits are published each year by HUD.

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the units must be occupied by families with incomes that do not exceed 50% of the HUD-adjusted median. The incomes of households receiving HUD assistance must not exceed 80 percent of the area median. HOME income limits are published each year by HUD. HOME-funded housing units must remain affordable in the long term (20 years for new construction of rental housing.)

HOME-assisted rental housing must comply with certain rent limitations. HOME rent limits are published each year by HUD. The program also establishes maximum per unit subsidy limits and maximum purchase-price limits.

The HOME Funds for the State of Utah are managed by the Olene Walker Housing Loan Fund (OWHLF), in the Division of Housing and Community Development, Department of Workforce Services. The OWHLF Program generally funds projects with a 50% AMI or less; however, funding consideration may be made for projects with an AMI of 50% or more if it has special needs set-aside units. Special needs housing are defined as: Elderly, Frail Elderly, Mentally and/or Physically Disabled, Homeless, Persons with AIDS and Transitional Housing. At least fifteen percent (15%) of the overall project funds must be used for set-aside units.

For more information about this program you may contact Shelli Glines, Associate Director of Housing, at (801) 526-4484 or at sglines@utah.gov. The HCD website can be found at this link: http://jobs.utah.gov/housing/owhlf/index.html.