FHA HUD 241(a) – Supplemental Loan to Finance Improvements

GREYSTONE

Eligible Properties

Existing multifamily and healthcare properties financed with an FHA-insured first mortgage.

Eligible Scope of Work

Proceeds from an FHA-insured supplemental mortgage can be used to finance improvements to the existing structures, or construction of additions to the project, including additional land contiguous to the existing site, to the extent that improvements will keep the project competitive, extend its economic life, or finance the replacement of obsolete equipment.

Borrower

The same entity that is the borrower of the FHA-insured first mortgage.

Recourse

Non-recourse. Note that a cross-default provision will be added to the 241(a) mortgage documents such that a default of the FHA-insured first mortgage will trigger a default of the 241(a) mortgage. However, a default of the 241(a) loan will not trigger a default of the first mortgage.

Loan Parameters

Maximum Loan to Eligible Cost	Minimum Debt Service Coverage
90% of the replacement cost attributable to improvements and additional land[1]	The supplemental loan debt service must be supported by the remainder of the project's post-improvement NOI after a portion is set-aside to cover the insured first mortgage's existing debt service, and the first mortgage's debt service coverage ratio must be maintained at the minimum level stipulated at the time of underwriting the first mortgage. Multifamily: 1.11x Healthcare: 1.45x

For Healthcare 241(a) only:

Maximum Loan to Value
The supplemental loan must not exceed the maximum percentage of the post-improvements value minus the unpaid principal balance of the project's existing debt, not including the supplemental 241(a) loan. 85% - for non-profit mortgagors 80% - all other eligible entities

For Multifamily 241(a) only:

Maximum Mortgage under Federal Statutory Limits
100% of the total maximum mortgage for the post-improvements project under federal statutory loan limits less the existing unpaid principal balance of the insured first mortgage.

[1] The required 10% equity contribution can be funded by value from new land added to the first mortgage security or from excess in the existing replacement reserve. Existing as-is property value in excess of the existing first mortgage debt cannot be leveraged to fund the 10% equity requirement, nor can residual receipts be used to fund the equity requirement.

Interest Rate

Fixed for term of loan, determined by market conditions at time of rate lock. Rate lock deposit is 0.5%, refunded at closing. Note that the FHA-insured first mortgage will remain in place; therefore, there will be no change to first mortgage interest rate or debt service.

Term and Amortization

The supplemental mortgage must be coterminous with the FHA-insured first mortgage in most cases.

Prepayment and Assumption

Negotiable with best pricing for 10 years of call protection; loan is fully assumable subject to HUD approval.

Escrows

A capital needs reserve (replacement reserve) for the property will have already been established in conjunction with the insured first mortgage and deposits will be required monthly. The supplemental loan will not require a second replacement reserve but will trigger re-analysis of the existing reserve. A capital needs assessment will be obtained to determine future capital improvement needs for both the existing project and any new additions based on post-improvements condition. An initial balance/deposit and on-going monthly deposits will be proposed for the entire post-improvements project at levels sufficient to maintain a minimum balance in the reserve. Excess funds, above and beyond the initial balance/deposit proposed can be used to cover other costs of the transaction, including the 10% equity requirement, but cannot be released as cash out to the borrower. If different firms will service the first and supplemental mortgage, an agreement must be executed designating a single firm to hold and manage the project's capital needs reserve after the supplemental loan closing.

Mortgage Insurance Premium

- Multifamily: 0.95% due to HUD at closing and 0.95% annually thereafter. Reduced MIP (0.25%-0.35%) may be permitted if the project was granted reduced MIP in conjunction with the FHA insured first mortgage and continues to qualify at the time of supplemental loan application.
- Healthcare: 0.72% due to HUD at closing and 0.75% annually thereafter.

HUD Application Fee

0.30% of estimated loan amount due with submission of application; reduced for properties in Opportunity Zones.

Timing

The application process and approval time, required underwriting documentation and HUD review, is equivalent to new construction or substantial rehabilitation financing.