



MASON JOSEPH, LLC

# Mortgage Insurance on Supplemental Loans Section 241(a)

The purpose of the HUD 241(a) program is to provide long-term, fixed-rate secondary financing for improvements or additions to properties with FHA insured first mortgages which are in need of repairs, substantial rehabilitation, or additional units.

## BASIC LOAN FEATURES

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<b>Property Type</b>	Multifamily projects with 5+ units which are already insured by FHA.
<b>Loan Amount Calculation</b>	The maximum insurable mortgage will be the lesser of: <ol style="list-style-type: none"><li>1. 90% of value of improvements / additions, or</li><li>2. 90% of NOI (1.11x DSCR) inclusive of debt service payments on first mortgage, or</li><li>3. The maximum statutory limitation applicable to the Section of the Act which the existing first mortgage is insured, based on the sum of the outstanding balance of the first mortgage and the supplemental loan.</li></ol>
<b>Term</b>	Coterminous with the underlying FHA-insured first mortgage, unless the remaining term is less than 25-years. If less than 25 years remain on the first mortgage, the term is up to 40 years, but not to exceed 75% of the remaining useful life.
<b>Amortization</b>	Same as Term (Fully Amortizing)
<b>Interest Rate</b>	Fixed Rate
<b>MIP</b>	0.95%
<b>Collateral</b>	Mortgage must be either: <ol style="list-style-type: none"><li>1. 1<sup>st</sup> lien Deed of Trust, or</li><li>2. Under a leasehold estate approved by HUD<sup>i</sup></li></ol>
<b>Personal Liability</b>	Non-recourse Standard carve-outs required for “bad acts” such as fraud and bankruptcy.
<b>Assumption</b>	Fully assumable
<b>Commercial Area and Income</b>	<ul style="list-style-type: none"><li>• Commercial space is limited to 25% of the net rentable area.</li><li>• Commercial income is limited to 20% of the effective gross income.</li></ul>
<b>Pre-Payment</b>	Pre-payment is negotiable. Typically closed for 1 – 2 years then open to pre-payment with a penalty of 8% of the outstanding loan balance, declining 1% per year to 0% in year 11.



<b>Third-Party Reports</b>	Standard 3 <sup>rd</sup> party reports required including an Appraisal, Phase I Environmental Site Assessment, and Project Capital Needs Assessment. Additional reports may be required in some instances.
<b>Required Escrows</b>	<p><u>Operating Escrows</u></p> <ul style="list-style-type: none"><li>• Replacement Reserve, tax and insurance escrows</li></ul> <p><u>Refundable Escrows</u> <i>Funded in either cash or letter(s) of credit. Released after 6 months breakeven.</i></p> <ul style="list-style-type: none"><li>• Initial Operating Deficit Escrow – 3% of loan amount</li><li>• Working Capital Escrow – 4% of loan amount</li></ul> <p><u>Upfront Escrows (if applicable)</u></p> <ul style="list-style-type: none"><li>• Off-site construction costs</li><li>• Demolition costs</li></ul>
<b>Eligibility</b>	Hard and soft construction costs

### Other Requirements

- Loans insured under 241(a) assume program characteristics of the underlying mortgage insurance program. (i.e. 221(d)(4), 223(f))
- 241(a) financing is a supplement to the exiting insured loan and is available without refinancing the exiting loan.
- The owner is required to contribute at least 10% of the total development costs of the transaction.
- Davis-Bacon prevailing wage requirements do not apply, unless 1) the underlying mortgage is a 223(f) or 223(a)(7) that was not subject to Davis-Bacon, or 2) the project is a Secretary-held mortgage that did not originally have an FHA-insured loan that was subject Davis-Bacon.
- An owner cost certification will be required after construction completion. If an Identity of Interest exists between the owner and the General Contractor, a lump sum contract is not permitted and the General Contractor will be required to do a cost certification.

These are basic terms of the HUD 241(a) program and are not considered exhaustive. Please contact Mason Joseph Company for full loan details and conditions.

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<sup>i</sup> Leasehold Estate approved by HUD for not less than 99 years which is renewable or with a minimum term of 50 years from the date of the mortgage.