FINANCING METHODS

PUBLIC HOUSING ADMINISTRATION

The 1965 Housing Act authorizes the Public Housing Authority to fund the purchase and rehabilitation of existing structures through local Housing Authorities.

This program permits local Housing Authorities to contract a property purchase and rehabilitation with a builder. Upon project completion, the builder is reimbursed for total project costs (land acquisition-rehabilitation). The project title and management reverts to the local Housing Authority.

FNMA financing is not included in this provision. The Public Housing Authority makes the appraisal, reviews cost contracts and will accept a cost figure from a builder without competitive bids. Upon completion, the project is turned over (turnkey) to the local Housing Authority.

The one requirement under this program stipulates that acquisition and rehabilitation costs do not exceed 90% new construction costs.

1965 HOUSING ACT: Contains new legislation that provides a below market interest rate (3%) on rehabilitation financing for non-profit sponsors and limited profit corporations.

221(d)3: 1965 Housing Act provision that defines financial methods available to non-profit sponsors and limited profit corporations. The non-profit sponsor category has two provisions:

1) Non-profit sponsor who holds property title. Rehabilitates and continues ownership.

2) Builder-Seller who purchases and rehabilitates the property under an agreement with a non-profit sponsor to purchase the property upon rehabilitation completion.

221(d)3 provides a 100% total mortgage (acquisition, reconstruction) at 3% for 40 years.

221(d)3 Limited Dividend Sponsor - Limited to 90% total mortgage at 3% for 40 years. Investment return on 10% equity is limited to 6%.

221(d)4 Conventional FHA Financing - Limits sponsors to 90% total mortgage at 5¼% for 40 years.

FINANCING METHODS

1965 HOUSING ACT
Section 221 (D) (3)

LIMITED DIVIDEND SPONSOR	-	Agrees to a 6% return on initial investment.
Mortgage Terms	-	90% total project cost (land acquisition-rehabilitation) at 3% for 40 years.*

A limited dividend sponsor must have 10% equity in the total project cost.

(Example)

Building Purchase Price	$ 30,000
Rehabilitation Costs	170,000
Total Project Costs	$200,000
Final FNMA mortgage at 90% project cost	$180,000
10% investment (equity)	$ 20,000
6% return on investment allowed under this provision	$ 1,200 per year

* 40 year maximum under law. Actual term determined by local FHA.

FINANCING METHODS

1965 HOUSING ACT
Section 221 (D) (3)

BUILDER-SELLER	- Builder purchases property with agreement to sell property to a non-profit sponsor after property has been rehabilitated.
Mortgage Terms	- 100% total project cost (land acquisition-rehabilitation) at 3% for 40 years. *
	Assigns 100% mortgage to non-profit sponsor upon job completion.
Property Title	- Is transferred to non-profit sponsor after FHA final inspection upon job completion.
Invested Monies	- (Same as non-profit sponsor)
Mortgage Loan	- 3% interest (below market rate) by FNMA after FHA insures loan after rehabilitation job completion.
	100% mortgage is assigned non-profit sponsor.
	FNMA reimburses property purchase price.
	FNMA reimburses rehabilitation cost.
	FNMA reimburses incidental fees.
Construction Loan	- (Same as non-profit sponsor)
Final Settlement	- (Same as non-profit sponsor)
	Upon final mortgage settlement, property ownership and management is the responsibility of the non-profit sponsor.

* 40 year maximum under law. Actual term determined by local FHA.

FINANCING METHODS

1965 HOUSING ACT
Section 221 (D) (3)

NON-PROFIT SPONSOR	-	Foundation, church, university, etc., incorporated as a non-profit organization.
Mortgage Terms	-	100% total project cost (land acquisition-rehabilitation) at 3% for 40 years. *
Property Title	-	Must be held for mortgage term.
Invested Monies	-	Property purchase (FNMA) reimbursed after (FHA) final inspection upon project completion.
Mortgage Loan	-	3% interest (below market rate) by FNMA after FHA insures loan. FNMA mortgage loan made after final FHA inspection upon job completion.
Construction Loan	-	For actual rehabilitation costs made by private lending institution to non-profit sponsor as a temporary loan until final FNMA mortgage loan is closed. The construction loan is made in timed stages as rehabilitation costs become due. Construction loan insured by FHA.
Final Mortgage Settlement	-	Permanent FNMA mortgage finalized. Private lending institution repaid construction loan by FNMA. Final mortgage balance minus construction loan payment awarded to non-profit sponsor by FNMA. (This balance covers property purchase and other fees, e.g., architect, legal, etc.) Non-profit sponsor pays mortgage for term set in mortgage from property rentals.

* 40 year maximum under law. Actual term determined by local FHA.

FINANCING METHODS

1965 HOUSING ACT
Section 221 (D) (4)

CONVENTIONAL FHA FINANCING - For individuals or groups who do not qualify under 221 (D) (3) provisions.

Mortgage Terms - 90% total project cost (land acquisition-rehabilitation) at $5\frac{1}{4}$% for 40 years. *

All other 221 (D) (3) financing provisions apply except private lending institutions lend the monies instead of FNMA.

Under this provision, there is no limit on amount of return on initial investment.

* 40 year maximum under law. Actual term determined by local FHA.