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FHA Insured Loans
Tax Credit "Pilot" Program for
Selected Projects under Sections 220 and 221(d)(4)

FHA has published the details of their new "Pilot" program for **new construction and substantial rehabilitation loans** in Notice H 2019-03. At AGM, we are excited about this new shift in FHA policy and look forward to using the Pilot program on our clients' behalf.

The program is designed to streamline the application process and to provide the Lender (AGM) with more responsibility during underwriting and construction, reducing FHA's involvement. Eligible projects are:

A: New Construction	B: Substantial Rehabilitation of a Section 8 Project	C: Substantial Rehabilitation and Re-Syndication
9% LIHTC only	4% and 9% LIHTC	4% and 9% LIHTC
90% or more of units LIHTC restricted	90% or more Project-Based Section 8 with 20-year HAP contract	90% or more of units LIHTC restricted
Achievable LIHTC rents are at least 10% below market rates		Achievable LIHTC rents are at least 10% below market rates

All projects in the program:

- Have a maximum Loan amount of $25 Million
- Will use the one stage Direct-to-Firm application
- Will have Application Review at FHA by a Designated Pilot Underwriter (DPU)
- Requires an inital **deferred Developer Fee of between 25%-75%**
- All members of the Development team must have experience with similar multifamily product, LIHTC's, and FHA-insured loans
- Must have clear 2530's (i.e., all flags resolved prior to application submission)

The following types of projects are **ineligible:**

- 4% LIHTC, New Construction
- RAD transactions
- Projects with Historic or New Markets Tax Credits
- Adaptive re-use of non-residential structures
- Projects involving "gut-rehab" or significant demolition
- Projects with inexperienced team members or property managers

There are two different tracks for approval: **Expedited and Standard**

- **Expedited Approval**, limited FHA review:
  - Allowed for projects under 200 units and qualified under types A and B above
  - For type A projects, a maximum Loan-To-Cost (LTC) ratio of 65%
  - For type B projects, a maximum Loan-To-Cost (LTC) ratio of 75%
  - Must have very limited environmental risks (otherwise, use Standard processing).
  - Section 8 HAP renewal requests must be delivered to the PBCA at least 60 days prior to submission of the Application.
  - Goal is closing within 90 calendar days of Application (30 to review, 60 to close).
  - Lenders will determine mortgage amount and terms along with the acceptability of the Sponsor and development team members. FHA underwriters will focus on regulatory and limited programmatic issues.
  - Lenders will review and approve construction cost increases between Firm Commitment and Initial Endorsement, under certain conditions (such as no mortgage increase).
  - Lender will approve most change orders, escrow releases, and interim draws. FHA will approve the initial and final draws as well as Permission to Occupy requests.
  - Draft closing documents can be submitted early to expedite the closing process.
  - The IOD escrow, if required, can be funded as late as the substantial completion date (instead of the initial closing date); an operating reserve escrow required by the LIHTC investor can be credited against the IOD.

- **Standard Approval**, more thorough FHA review:
  - Allowed for type A and B projects that are not eligible for Expedited review
  - Allowed for re-syndication projects qualified under type C above
  - No limit on the number of units
  - For type C projects, a maximum Loan-To-Cost (LTC) ratio of 75%
  - Environmental risk factors are still limited, but not as much as Expedited
  - Goal is closing within 120 calendar days of Application (60 to review, 60 to close)
  - Lender will approve interim draws; FHA will approve the initial and final draws as well as Permission to Occupy requests.
  - Streamlined FHA AEC review process
  - The AIA G702/G703 forms for cost breakdown and draws will be accepted in lieu of the 2328 and 2448 forms

Lenders and their underwriters must meet experience and training requirements. Selected FHA field offices will process these applications, and workload sharing may also be used. The local originating FHA office will close the loan. Staff in the FHA Headquarters office will monitor projects, provide guidance to Lenders and DPU's, evaluate the Pilot program, and limit loan volume to $250 million per fiscal year for the first three years.

Our Origination team looks forward to consulting with you to determine whether this Pilot program is a good fit with your LIHTC project.

AGM Financial Services, Inc. is a privately held lender, based in Maryland. Since AGM's inception we have closed over $6.8 billion in FHA insured loans, funding over 83,000 units.