

A photograph of a modern multi-story building with a facade of horizontal wood slats and dark blue accents. The building features balconies with glass railings and some have small planters with greenery. The sky is clear blue.

Midwest Lenders Association

Section 241(a) Mortgage Insurance
for Supplemental Loans



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Section 241(a) Supplemental Mortgage Insurance

What is a 241(a) HUD insured loan?



Provides financing for repairs and improvements to an existing project, or new construction of an additional phase or new buildings to an existing project.



Serves as a second mortgage on an existing HUD-insured first mortgage.



Allows for addition of land if adjacent to or across the street and for additional units not to exceed the original number of units on the underlying first HUD-insured mortgage.





Taking a Step Back

How did we get here?

HUD Fiscal Years 2020 – 2022:

- Rates between 3-4%
- Record number of transactions, totaling between \$17 and \$28 Billion

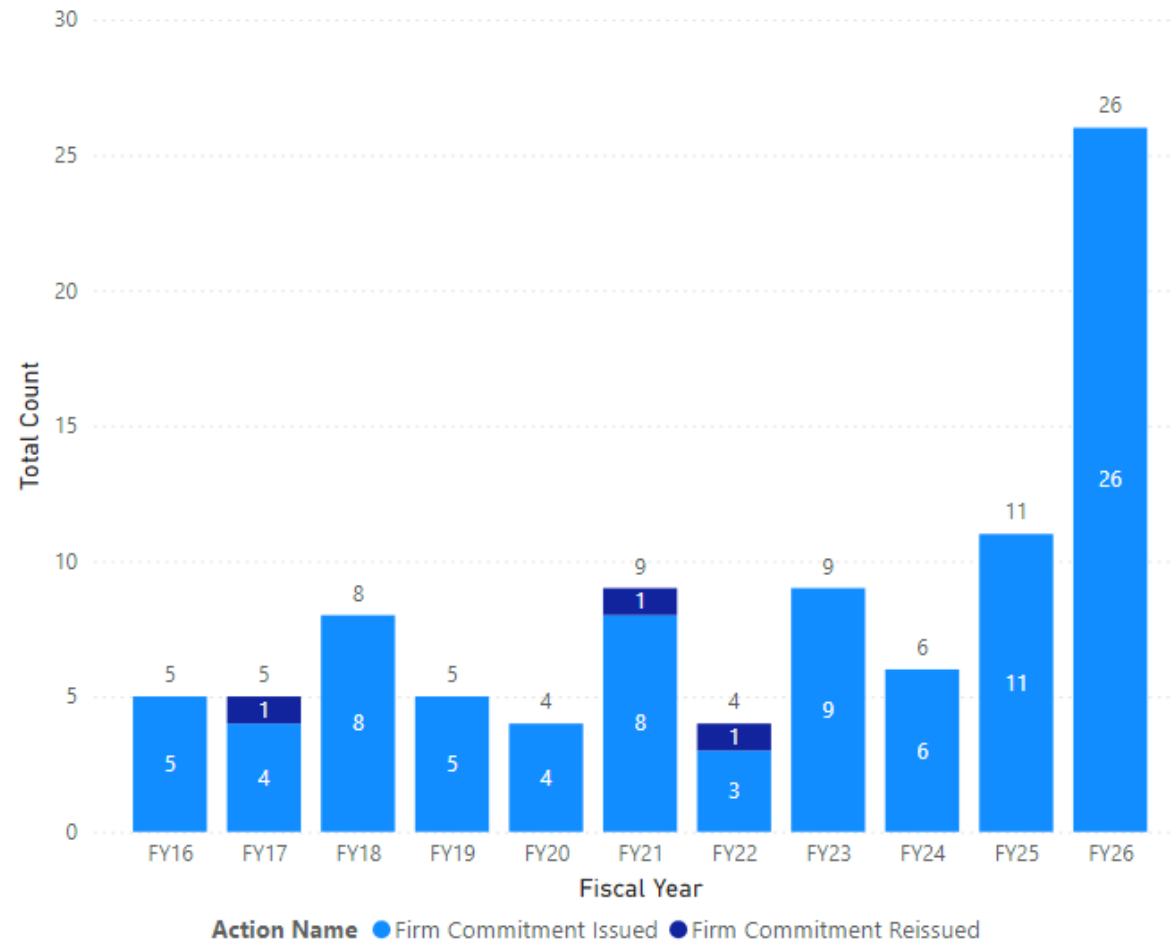


Rates rise:

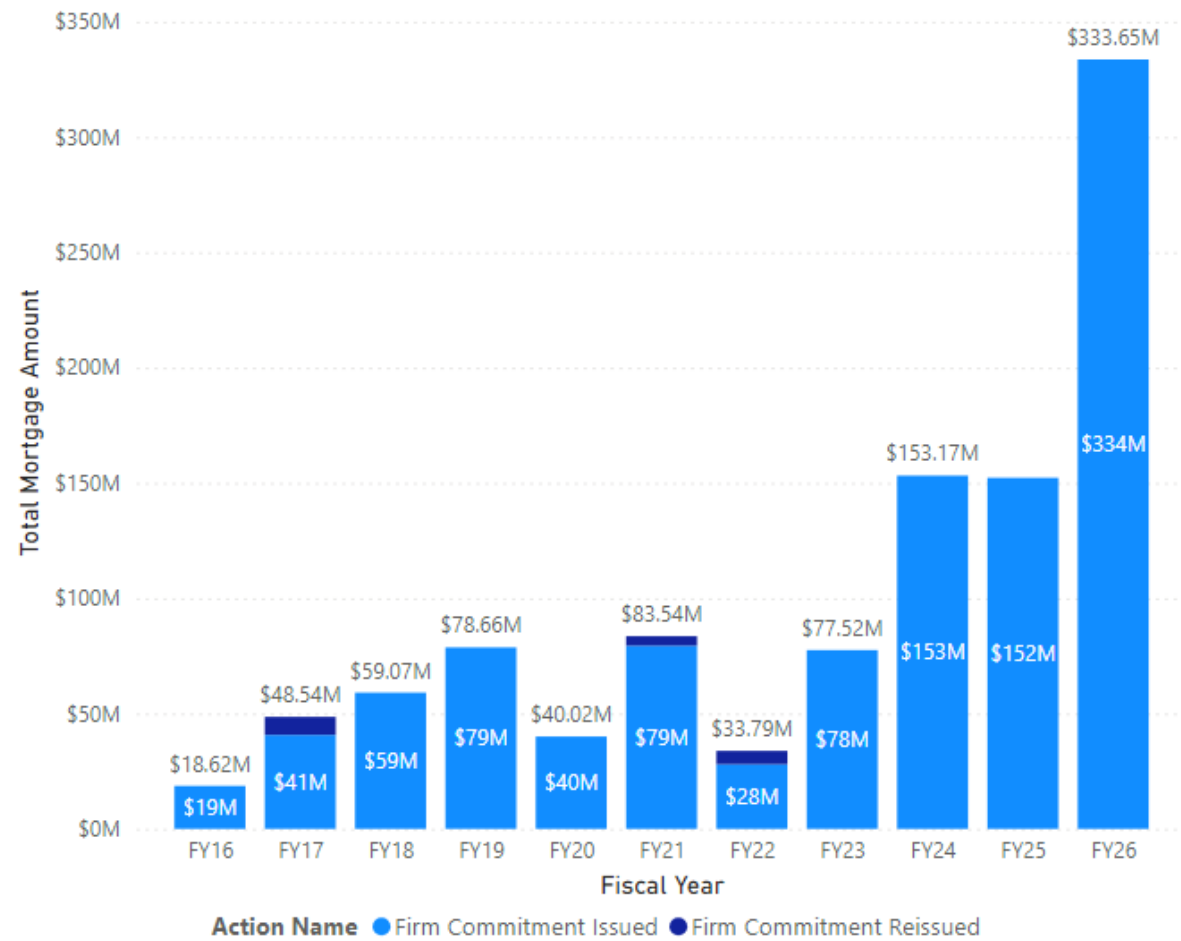
- 241(a) gains strong interest to provide funding without impacting underlying low-rate long-term debt



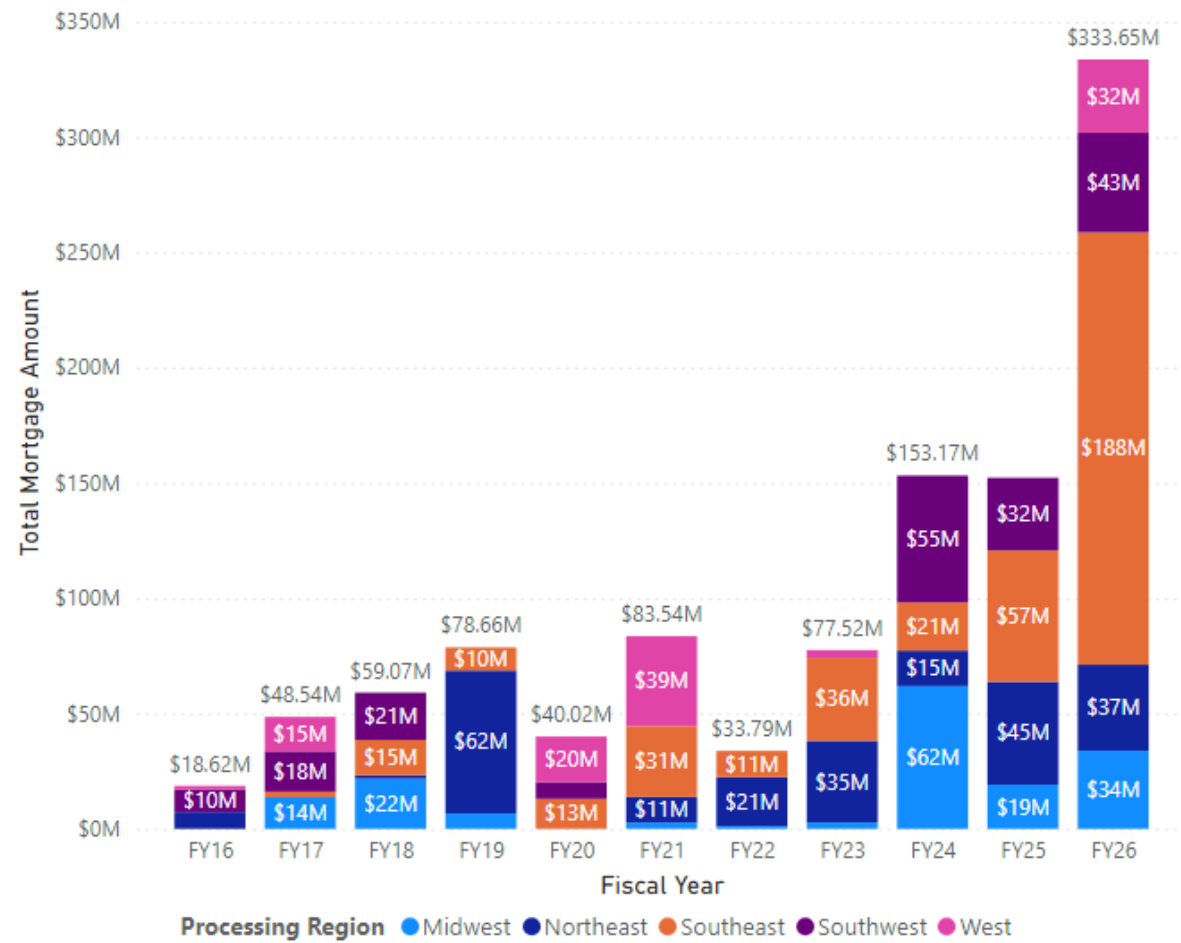
Firm Commitments Issued & Firm Commitments Reissued - Total Cou...

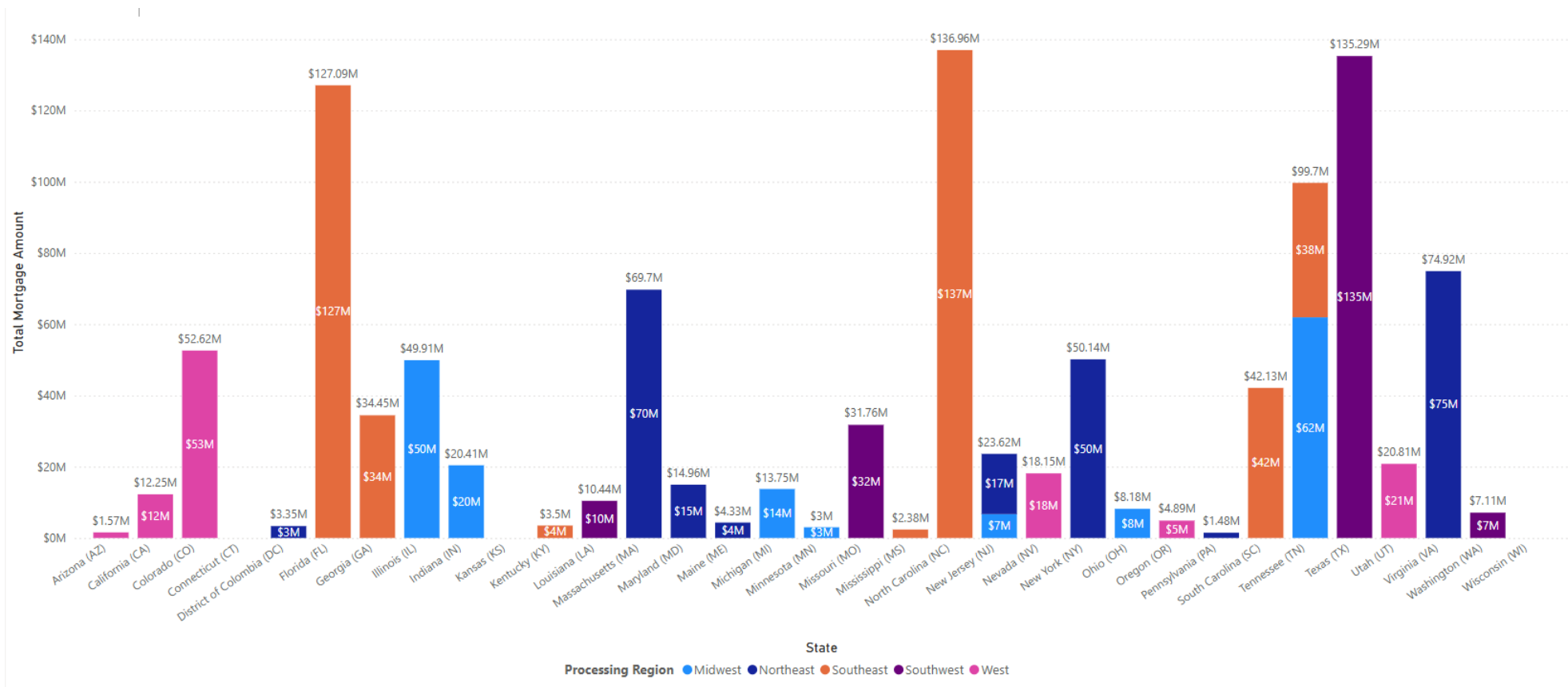


Firm Commitments Issued & Firm Commitments Reissued - Total Mo...



Firm Commitments Issued & Firm Commitments Reissued - Total Mo...





Key Point

241(a) Program Can Follow Two Alternative Tracks

If the Scope of Work involves new construction or substantial rehabilitation, transaction must be processed like a 221(d)(4).

If the Scope of Work is less than the threshold for substantial rehabilitation, the transaction should be processed like a Section 223(f).

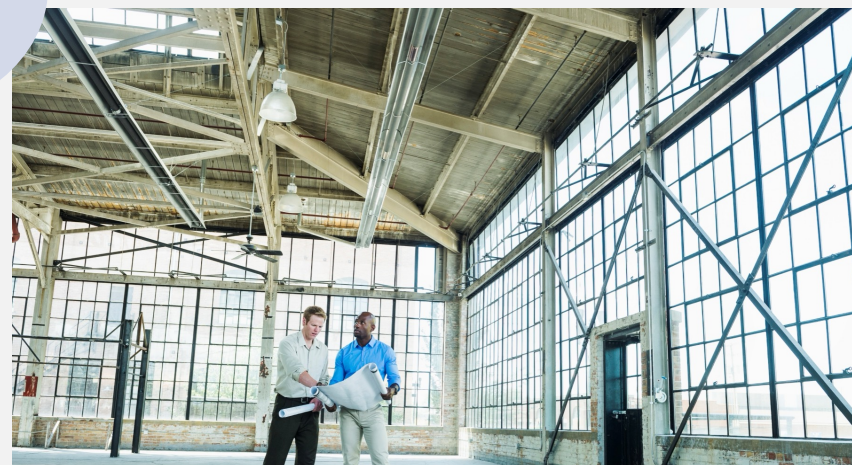
Repair escrow with a 12-month repair period.

Scope of
Work
determines
the Track



Processed like a 221(d)(4)

- Insurance of advances and two closings



Processed like a 223(f)

- Repair escrow and one closing

Key Point

241(a) Processing Dynamics

Scope of Work

TPA Coordination

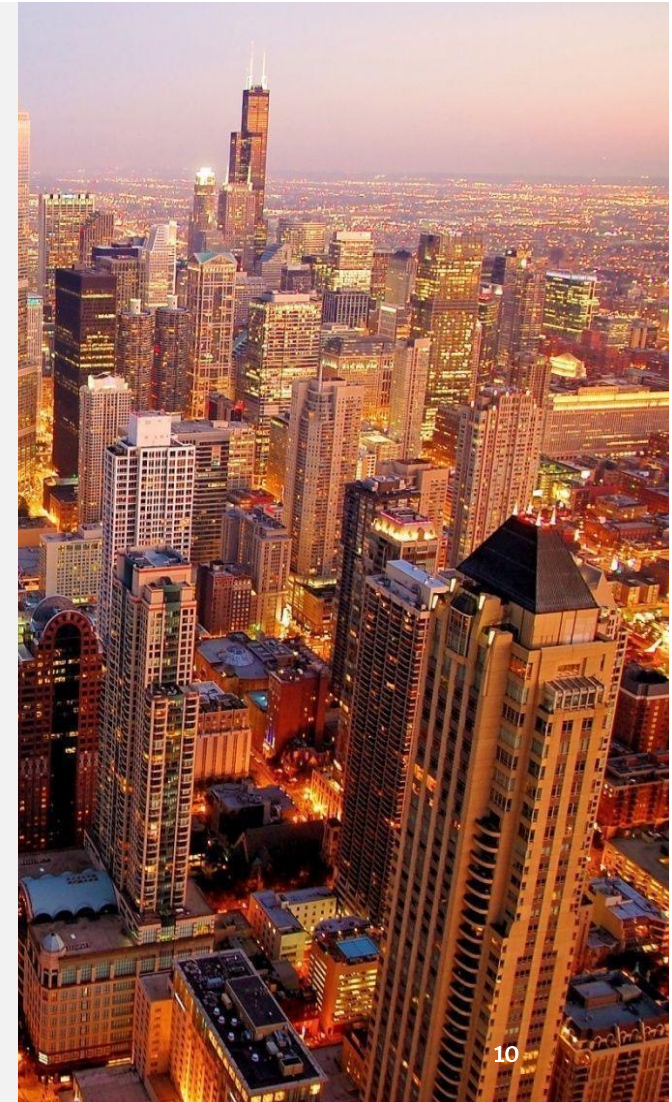
HAP vs. Non-HAP

LIHTC/Tax-Exempt Bonds

Developer Fee

LURA

3rd Tier Subordinate Debt



Key Point

241(a) Legal Nuances

Underlying Loan Documents

Title

Survey

Zoning



Key Point

241(a) Loans With LIHTC

LURA Priority:

The LIHTC Land Use Restriction Agreement (LURA) governs affordability requirements and must be coordinated with both the existing HUD first mortgage and the new 241(a) loan. Early review helps identify potential lien priority and compliance issues.

Developer Fee:

Key considerations include the fee amount, paid versus deferred structure, funding source, and timing of payment. Underwriters should ensure the fee is reasonable and distinguish if the fee will be mortgageable or non-mortgageable.



Key Point

241(a) & TPA: Sources & Uses

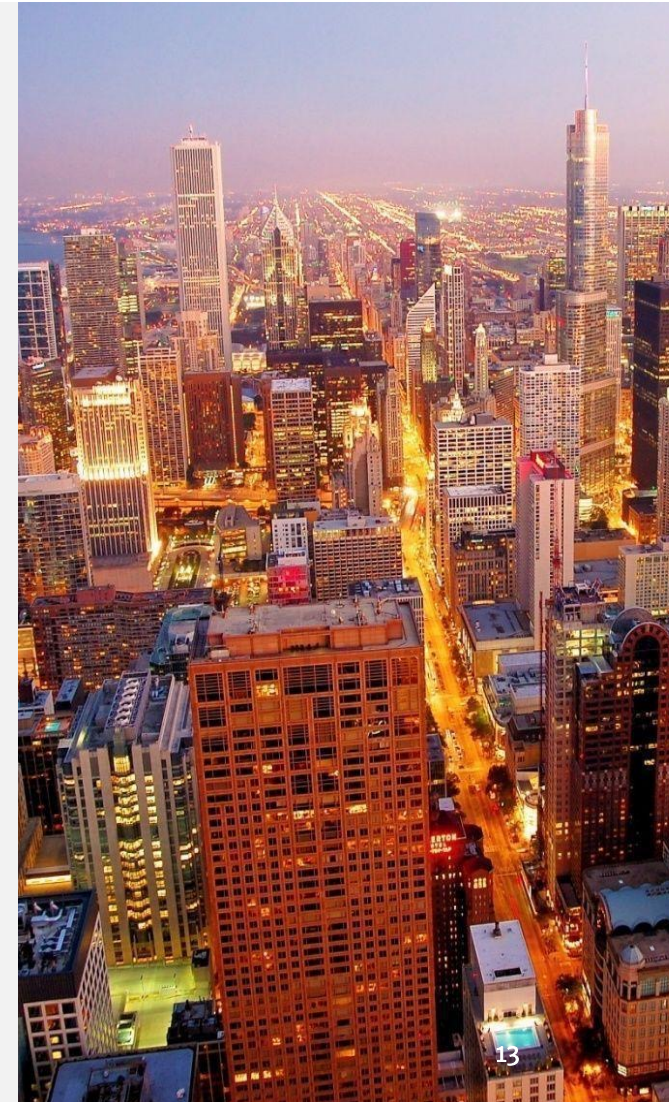
TPA Transactions

- Acquisition price
- Assumption of existing HUD debt
- Equity contribution from purchaser
- Closing and transaction costs
- Allocated Developer Fee for Acquisition

241(a) Transactions

- Repair / improvement costs
- Supplemental loan proceeds
- Borrower contribution to improvements
- Contingencies, fees, and escrows
- Allocated Developer Fee for Construction

Key Question: When a TPA and 241(a) occur simultaneously, should the transactions be evaluated independently or as a single integrated plan?



241(a) Loans & HUD Forms

Form HUD-92264-A – Criterion 5

g. Enter a or line c, whichever is applicable, minus line f

5 Amount Based on Debt Service Ratio					
a. Mortgage Interest Rate				6.1500 %	
b. Mortgage Insurance Premium Rate				0.2500 %	
c. Initial Curtail Rate				1.1607 %	
d. Sum of Above Rates					7.561%
e. Net Income	\$	1,562,411	X	90%	\$ 1,406,170
f. Existing Debt Payment	\$			\$	684,755
g. Line e minus line f					\$ 721,415
h. Line g divided by line d					\$ 9,541,595
i. Annual Tax Abatement	Savings	\$	0	÷	100 %
j. Line h plus line i					\$ 9,541,500

form **HUD-92264-A** (03/2010)
ref Handbooks 4480.1 & 4470.1

Previous editions are obsolete

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241(a) Loans & HUD Forms

Form HUD-92264-A – Sources & Uses

II. Total Requirements for Settlement

Part A		Part B	
1. Fees Not to be Paid in Cash		1.a. Development Cost	\$ 24,602,635
a. BSPRA/SPRA	\$	b. Adjustment for Contracted Amounts in Excess of form HUD-92264 Estimates	
b. Builder's Profit	\$	(1) Construction Contract	\$
c. Other	\$	(2) Architect's Contract	\$
Total (enter in part B on line 5)	\$	(3) Other	\$
2. Commitment, Mktg., Fees, and Discounts and Escrows		c. Total of lines a & b	\$ 24,602,635
a. Fees		2. Land Indebtedness (or Cash Required for Land Acquisition)	\$ 0
GNMA	\$	3. Subtotal (lines 1c + 2)	\$ 24,602,635
Other	\$	4. a. Mortgage Amount	\$ 13,255,900
b. Discounts		b. Grant/Loan	\$
Permanent Loan	\$	5. Fees Not to be Paid in Cash	\$
Construction Loan	\$	6. Subtotal (lines 4a+4b+5)	\$ 13,255,900
c. Escrows		7. Cash Investment Required (line 3 minus line 6)	\$ 11,346,735
Debt Service Reserve (Board & care)	\$	8. Initial Operating Deficit	\$
Other (IOD)	\$ 0	9. Commitment, Marketing Fees, Discounts and Escrows	\$
Total (enter in part B on line 10)	\$ 0	10. Working Capital	\$ 265,118
3. Working Capital		11. Offsite Construction and Demolition Costs	\$
a. Working Capital	\$ 265,118	(\$ +\$)	\$
b. Minimum Capital Investment (Sec. 202 & Sec. 81)	\$	12. Total Estimated Cash Requirement	\$ 11,611,853
c. Non-Realty items Not Included in Mortgage	\$	(sum of lines 7 + 8 + 9 + 10 + 11)	
Total (enter in part B on line 10)	\$ 265,118	Front Money Escrow, If Any,	\$ 11,346,735
		(subtract line 6 from line 1)	

* Note: for Section 223(b) cases, attach the form for computing the operating deficit.

Key Point

241(a) & Davis Bacon Wage Requirements

Wage requirements are determined by the underlying first mortgage.

- Davis-Bacon applies when the underlying first mortgage is subject to Davis-Bacon wage requirements.
- Davis-Bacon does not apply when the underlying first mortgage is:
 - Section 223(f) or 223(a)(7)



Thank you

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