Comparison of FHA 223(f) and FHA 221(d) Financing for Affordable Properties

Loan Characteristic	FHA 223(f)	FHA 221(d)
New construction permitted?	No (see Note 1)	Yes
Substantial rehab permitted?	No (see Notes 1 and 2)	Yes
Davis-Bacon applies?	No	Yes
Maximum loan term	35 years	40 years
Loan term limited to 75% of the property's remaining life?	Yes	Yes
Minimum debt service coverage	1.15:1 (see Note 3)	1.176:1 (see Note 4)
Appraisal required?	Yes	Yes
Maximum loan-to-value	85% loan-to-value (see Note 5)	No LTV limitation (see Note 6)
FHA Mortgage Insurance Premium?	Yes	Yes

Note 1 – 223(f) requires completion or substantial rehabilitation of the property at least three years prior to the date of the loan application.

Note 2 – "Substantial rehabilitation" is defined in FHA's Multifamily Accelerated Processing Guide, Section 5.12. Typically, if rehab cost is above about $15,000 per unit, it is likely that the "substantial rehabilitation" definition will be triggered and accordingly 223(f) will not be available. However, for Low Income Housing Tax Credit 223(f) transactions, the rehab cost can be up to $40,000 per unit under FHA's Tax Credit Pilot 223(f) initiative.

Note 3 – if at least 90% of the units have project-based Section 8, the minimum DSC is 1.11:1. For market rate properties, the minimum DSC is 1.20:1.

Note 4 – if at least 90% of the units have project-based Section 8, the minimum DSC is 1.15:1. For market rate properties, the minimum DSC is 1.20:1.

Note 5 – for "affordable housing" as defined by FHA, the maximum LTV is 85%. If there is project-based Section 8 for at least 90% of the units, the maximum LTV is 87%. For market-rate properties, the maximum LTV is 83.3%.

Note 6 – although 221(d) does not have a loan-to-value limitation, it does have a limitation of 87% of "total replacement cost" (out-of-pocket development cost plus a formula allowance for developer profit) for "affordable housing" as defined by FHA. If there is project-based Section 8 for at least 90% of the units, the maximum loan-to-cost ratio is 90%. For market-rate properties, the maximum loan-to-cost ratio is 83.3%.