MASON JOSEPH COMPANY, INC.

MORTGAGE INSURANCE for SUPPLEMENTAL LOANS
SECTION 241(a)

The purpose of the program is to provide long term, fixed rate secondary financing for improvements or additions to properties with FHA insured first mortgage which need repairs, substantial rehabilitation, or additional units.

BASIC FEATURES:

A. Personal Liability: Loans are nonrecourse to the owner and secured solely by the property.

B. Eligibility: Hard and soft construction costs

C. Term: Must be 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 remaining useful life. The mortgage must be fully amortizing.

D. Loan Amount: The maximum insurable mortgage is the lesser of:

1. 90% of the HUD estimated value of the improvements/additions. The cost of the repairs and transaction costs including the value of additional land is recognized as value. (No BSPRA)
2. 90% of NOI inclusive of debt service payments on first mortgage
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

E. Interest Rate: Low, fixed-rate set via Ginnie Mae MBS. The interest rate is established upon the issuance of the commitment. The interest rate can be sold at a premium over the par rate to fund any prepayment penalty.

F. MIP: 0.95% of loan amount due at initial loan closing for each 12 months of construction term, or part thereof; 0.95% of outstanding principal balance thereafter. Qualifying affordable or green transactions may have reduced MIP rates ranging from 0.25%-0.35%

G. Assumability: Fully assumable.

H. Pre-Payment: Negotiable, but typically closed for 1-2 years then open to pre-payment at with a penalty of 8% of the outstanding loan balance, declining 1% per year to 0% in year 11.

I. Other Requirements:

- Loans insured under 241(a) assume program characteristics of the underlying the mortgage insurance program
- 241(a) financing is a supplement to the existing insured loan and is available without refinancing the existing loan
- Owner is required to contribute at least 10% of total development costs of the transaction.
- Davis-Bacon prevailing wage requirements do apply except for (1) the underlying mortgagor is a Section 223(f) that was not subject to Davis-Bacon or a 223(a)(7), and (2) projects with a Secretary-held mortgage if the project did not originally have an FHA-insured loan that was subject to Davis-Bacon
- A Capital Needs Assessment (CNA) is required and should be supplemented with Plans, Specifications, and Cost analysis per requirements for Section 221(d)(4)
- A Phase I Environmental Report is required if funding significant improvements, additional units, or an increase in a building footprint
- Working Capital and IOD requirements are the same as the 221(d)(4) program but are waivable in some cases
- A cost certification by the owner will be required after construction completion. If an Identity of Interest exists between the general contractor and the owner, a lump sum contract is not permitted and the general contractor will be required to do a cost certification

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