



### **Substituting an EMC FHA Construction/Permanent Mortgage for Mezzanine Financing**

For new-construction apartment projects with good numbers, today's market is flooded with mezzanine and preferred equity sources. They'll fund up to 90%-95% of the capital stack, allowing private developers to retain full ownership with a modest equity investment.

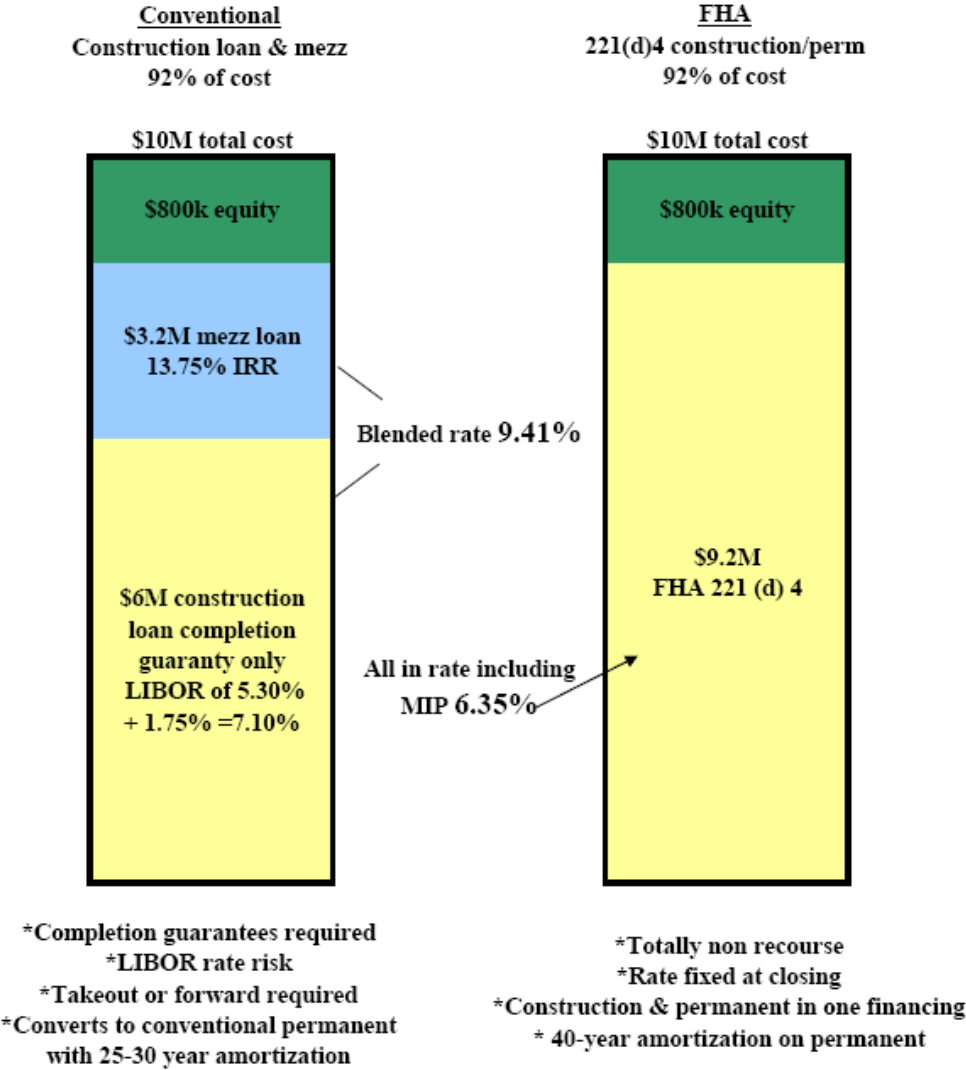
But the blended cost of a construction loan plus mezz has increased sharply - for a typical project, we estimate in the range of 9.4%. See the attached analysis.

Compare a typical 221(d)4 loan. It goes just as high in the capital stack as a conventional construction loan plus mezz. - 92% of total cost in our example. But the total capital cost, including MIP, is 6.35%. Fixed at closing. Totally non-recourse, even during construction. With a 40-year permanent loan - and 40-year amortization.

Even strong projects may become unfeasible at a 9.4% total cost of capital. Lowering capital cost to 6.75% may make all the difference. And prudent borrowers will also be interested in taking interest rate, recourse, and balloon risk out of the deal.

For a side-by-side analysis, see below. We continue to think that Eastern Mortgage Capital's financing for construction and major renovation projects is worth a serious look.

**Comparison of FHA 221(d)4 and Conventional Options  
New Construction or Major Rehab of Apartments**



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