

FHA/HUD SECTION 223(f) Multifamily Refinance or Acquisition



Program Summary

Eligibility Multifamily rental apartments with a minimum of five (5) units with complete kitchens and baths. Properties may be market rate (any class) or affordable.

Borrower A single-asset, special purpose entity. Can be either for-profit or non-profit.

Mortgage Term Lesser of 35 years or 75% of remaining economic life. Fully amortizing.

Recourse Non-recourse

Loan Parameters	Rent Type	LTV/ LTC	Cash Out	Minimum DSCR
	Subsidized	90%	80%	1.11x
	Affordable	87%		1.15x
	Market Rate	85%		1.18x

- Subsidized is defined as 90%+ units covered by a project-based Section 8 contract.
- Affordable is defined as a property with a minimum set aside in effect for at least 15 years post-closing.
- Loan amount cannot exceed HUD's statutory per unit loan limits adjusted by high cost factor.
- Large loans above \$75 million may have more restrictive criteria.

Interest Rate Interest rate typically locked upon issuance of Firm Commitment. Rate is subject to market conditions at the time of rate lock. The rate is fixed for the term of the loan.

Mortgage Insurance

Premium (MIP)	MIP is based on a percentage of the outstanding mortgage amount and varies by program	
	Year 1 – At Closing	Annually
Market Rate	1.00%	0.60%
Green/Energy Efficient	0.25%	0.25%
Broadly Affordable	0.25%	0.25%
Affordable	0.35%	0.35%

- Contact your Draper & Kramer HUD representative for green and affordable requirements

Prepayment Fixed and negotiable; typically, the loan is open for prepayment at 10% premium in year 1 and declining 1% per annum until open after Year 10.

Assumption Loan is fully assumable subject to HUD approval.

Commercial Space Allowable up to 25% of the net rentable area and limited to 20% of total gross rental income.

Timing	Stages	Estimated Timeframe
	Firm Application Submission	45-60 Days
	HUD Reviews Application	60 Days
	Closing from Receipt of Firm Commitment	30-45 Days

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(Additional Requirements)

- Scope of Rehab** The cost of moderate rehabilitation may be included in the mortgage proceeds provided:
- a) The cost of such repairs and improvements do not exceed \$15,000 per unit adjusted by the high cost factor applicable to the geographic area – may be up to \$40,000 per unit in high cost markets, and;
 - b) The repairs do not exceed replacement of more than 50% of any two building systems (i.e. structural frame, building envelope, mechanical, electrical, plumbing).

FHA Application Fee HUD requires a fee of 0.3% of the requested mortgage amount for the review of the Firm Commitment application. This is lower for projects located in Opportunity Zones.

Escrows/Reserves HUD requires a cash escrow for the replacement of short-lived items. Additionally, HUD requires monthly escrows for property insurance, real estate taxes and MIP.

- FHA Inspection Fee**
1. \$30.00 per unit where the repairs/improvements are greater than \$100,000 in total but \$3,000 or less per unit.
 2. The greater of \$30.00 per unit of 1% of the cost of repairs or \$1,500 where the repairs/improvements are more than \$3,000 per unit.
 3. \$1,500 where the total repairs/improvements are less than \$100,000 which may be decreased by the Regional HUD office if the lender elects to take responsibility for the inspection.
 4. The inspection fee is payable at closing.

Third Party Report Costs The costs for third party reports, such as appraisal, property condition report, environmental reports and other organization costs may be included as mortgageable soft costs in the mortgage calculation.

Closing Costs Includes standard transaction costs such as the borrower's legal fees, title insurance and survey.

FHA/HUD SECTION 223(f) - Multifamily Refinance of Recently Completed/Renovated Properties (Removal of HUD's "Three Year Rule")



HUD has removed their "Three Year Rule" and now permits projects that have been recently constructed or substantially rehabilitated to seek FHA mortgage insurance immediately through the 223(f) loan program without three year seasoning requirement (Mortgagee Letter 2020 – 03).

- **Projects are eligible for submission to HUD *immediately* upon achieving *one month* of programmatic debt service coverage at in-place rents.**
 - 1.176X for market-rate projects
 - 1.11X for affordable projects
 - Based on actual revenue collections and normalized operating expenses
- **Projects must meet three consecutive months of sustaining occupancy prior to loan closing.**
 - Can be achieved during HUD's processing
- **Borrowers may cash out at up to 80% of stabilized value.**
 - 50% of equity return / cash out above refinance held back until a total of six months of consecutive stabilized debt service coverage has been achieved (based on in-place rents).
 - Valuation based on stabilized operations
- **Draper and Kramer can arrange interim bridge financing for those projects not yet stabilized for HUD 223(f) permanent financing.**
 - Oldest active FHA license in the country.
 - Arranged \$3.2 billion of debt in 2019 including over \$1.2 billion multifamily.

For additional information on this or other lending products, please contact our experts:

Jesse Stewart IV
FHA Multifamily Loan Originator
312-795-2642
jesse.stewart@draperandkramer.com