

AMORTIZING FIRST MORTGAGES

FHA/HUD Section 223(f): Acquisition and Refinancing

Program Overview

Mortgages financed under Section 223(f) of the National Housing Act are insured by the Federal Housing Administration (FHA) to facilitate the acquisition, refinance or moderate rehabilitation of multifamily rental housing.

Application Process

Applications accepted throughout the year.

Lending Terms

Eligible Properties:	Existing multifamily rental apartments with at least five rental units. Rents may be market rate, moderate-income or subsidized. Project must be constructed or substantially rehabilitated more than three years prior to date of application for mortgage insurance. Affordable projects must have income restrictions of at least 20 percent of the units at 50% of AMI OR 40 percent at 60% of AMI, with economic rents no greater than low income housing tax credit (LIHTC) rents and a Regulatory Agreement in effect for at least 15 years after loan closing.
Loan Purpose:	Acquisition or refinance. For-profit or nonprofit borrowers may utilize this program.
Loan Parameters:	<p>Maximum loan amount will be the lowest of:</p> <ul style="list-style-type: none">• Applicable percent of loan to value (LTV)• Applicable debt service coverage ratio (DSCR)• 85 percent of transaction costs, if purchase transaction• Greater of 100 percent of transaction costs or 80 percent LTV, if refinancing transaction• HUD mortgage statutory limits, adjusted for local high cost factors <p>For market rate projects or LIHTC properties with less than a 10 percent rent advantage: 85 percent LTV; 1.176 DSCR</p> <p>For affordable projects with at least a 10 percent rent advantage: 87 percent LTV; 1.15 DSCR</p> <p>For projects with 90 percent or greater rental assistance, applicable factors: 90 percent LTV; 1.11 DSCR</p>
Term and Amortization:	A maximum term of 35 years, fully amortizing. Not to exceed 75 percent remaining economic life
Borrower:	Single asset entity
Recourse:	Non-recourse. Principals must ensure compliance with the project's Regulatory Agreement.
Interest Rate:	Fixed for the term of loan, determined by market conditions at time of rate lock.

Prepayment and Assumption:	Negotiable; typically includes a lockout followed by a declining percentage prepayment penalty. Loan is fully assumable, subject to HUD approval.
Cash Out:	Cash out allowed when 80 percent of value exceeds existing debt plus transaction costs. Only 50 percent of the net cash will be released at closing; remaining 50 percent will be escrowed until completion, inspection and approval of the non-critical repairs.
Repairs Qualifications:	Repairs cannot exceed the lesser of: <ul style="list-style-type: none"> • \$15,000 per unit (adjusted for local high cost factor); • 15 percent of appraised value; or • 50 percent replacement of two or more major building systems
Third Party Reports:	May include reports such as appraisal, environmental, radon, market study and a physical needs assessment. Properties older than 30 years may also need intrusive testing of concealed components such as sewer lines.
Fees and Expenses:	<ul style="list-style-type: none"> • Processing Fee to cover third party reports, lender processing and other application materials due at engagement • FHA Exam Fee of 0.30 percent of the loan amount, due with submission of firm application • FHA Mortgage Insurance Premium (MIP) <ul style="list-style-type: none"> 1 percent due at closing; then escrowed monthly at the following rates: <ul style="list-style-type: none"> • 0.25 percent for broadly affordable (90%+ Section 8 or LIHTC) and green/energy efficient • 0.35 percent for affordable/inclusionary properties (10% – 90% Section 8 or LIHTC) • 0.60 percent for market rate projects • FHA Inspection Fee: <ul style="list-style-type: none"> • \$1,500 where repair totals are less than \$100,000 • \$30 per unit where repair totals are more than \$100,000 but are \$3,000 or less per unit • Greater of \$30 per unit or 1 percent of repairs, if repairs total more than \$3,000 per unit • Financing fee payable at closing • Good Faith Deposit due at note rate lock; refundable post-closing
Escrows:	<ul style="list-style-type: none"> • Replacement reserves required in accordance with HUD guidelines • Taxes and insurance are escrowed monthly • MIP escrowed monthly, per rates above • Assurance of Completion escrow for required one-year repairs (120 percent of repair amount)

Questions

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