

**HUD INSURED LOANS for
REPAYMENT AND REFINANCE of
SECTION 202 OR 202/8 DIRECT LOAN APARTMENTS
Section 223(f)**

~ Multifamily Accelerated Processing ~

PROGRAM FEATURES

- Fixed-rate, level pay
- Long term-35 years
- Non-recourse
- Fully Assumable
- 90% Loan to value
- 100% of costs

QUALIFYING PROPERTY

- Senior apartment property with existing HUD Section 202 first mortgage.
- Repairs cannot exceed the replacement of one system or cost more than the greater of \$6,500 times the high cost factor or 15% of after-repair value.
- FHA insurance **does not limit** rents, tenant incomes, or return on equity. Rents, occupancies and expenses must be comparable to the marketplace.

LOAN AMOUNT

Least of:

- 90% of value; or,
- 100% of the cost to refinance; or,
- 90% of net operating income divided by the debt service factor.
- Limit based on existing Section 202 debt service

LOAN TERM

- The lesser of 35 years or 75% of the remaining economic life of the property.

Financing Communities with FHA

INTEREST RATE

- Interest rates are fixed rate, level-pay for the life of the loan, and are set at the time the loan is purchased which occurs after a Firm Commitment is issued and before Closing. Prepayment penalties and discounts vary depending on market conditions.

SECONDARY FINANCING

(Secondary debt must be fully subordinated to the HUD-insured first mortgage)

If Source is Federal, State or Local Debt:

The loan cannot exceed the difference between the HUD insured mortgage and the HUD Fair Market Value of the project.

If Source is Other Entities or Natural Persons:

The aggregate amount of the insured first loan and the second loan cannot exceed 92.5% of the HUD Fair Market Value of the project.

UNDERWRITING PROCESS

- AGM prepares a preliminary mortgage calculation; if this indicates that the project qualifies for an acceptable HUD-insured loan, AGM will schedule a site visit with the Borrower and informally discuss the project with the local office of HUD.
- Underwriting and Processing will be pursuant to the terms and conditions of the HUD notices addressing policy for Section 202 loan prepayment: H 2002-16 and H 04-21.
- The Owner submits an application to HUD for approval to pre-pay the existing 202 loan; some can be prepaid without HUD's approval, but an owner may still choose to request approval so that Section 8 rents will not be marked down to market. AGM can assist with this application.
- Project-based Section 8 rents **will not be increased** at the time of prepayment application.
- Firm Commitment Application: This application includes a Phase I, Part A of the Form HUD-4128 (further environmental investigation), a complete appraisal, a Property Capital Needs Assessment (PCNA), and all mortgage credit documents. Once HUD has accepted the application, HUD has 60 days to issue a Firm Commitment.

COMMITMENT and CLOSING

- Once AGM receives an acceptable Firm Commitment from HUD, the Borrower's closing attorney prepares the HUD closing package with HUD's and lender's closing attorneys. The debt is competitively bid. Closing is scheduled by HUD.

MORTGAGEABLE FEES

- HUD Application Fee 0.3% of the mortgage
- Financing Fee 2.0% of the mortgage
- Placement Fee 1.5% of the mortgage
- Mortgage Insurance Premium 1.0% at closing plus annual fee (see below)
- HUD Inspection fee The greater of 1.0% of repairs or \$30 per unit
- Developer Fee 15% of Repairs for non-LIHTC projects
- Borrower's 3rd Party Costs Appraisal, Environmental Reports, Property Capital Needs Assessment (PCNA)

ANNUAL FEES AND RESERVES (Paid Monthly)

- Mortgage Insurance Premium .45% of outstanding balance, reset annually
- Reserve for Replacement Underwritten based on PCNA results
- Taxes and Insurance

EQUITY TAKE-OUT

- Refinance: Borrower is not permitted to take cash out in excess of the permitted Developer's fee.
- Purchase: Seller is limited to equity take out of the lesser of the purchase price or the unassisted market value of the property.

OTHER PROGRAM FEATURES

- Repairs Completion Escrow - 10% of the cost of repairs; posted at Closing and released after repairs are completed, can be funded with existing reserves in excess of the \$1,000/unit minimum or backed by an LOC.
- Critical repairs (life/safety issues) must be completed prior to closing. Non-Critical repairs may be completed up to one year after closing.
- Davis-Bacon (prevailing) wages are not applicable.
- A short form of cost certification must be completed after repairs are completed.
- A detailed work write up listing quantities and unit prices for repair items is required.
- Equal employment and equal housing opportunity requirements apply.
- Maximum occupancy for underwriting is 95%.
- If the borrower is a non-profit, an existing or proposed tax exemption or PILOT may be underwritten, even if it does not run with the property.
- HUD will require an initial deposit to **Replacement Reserves** which can be financed with mortgage proceeds or funded with existing escrow, typically \$1,000/unit. If the existing escrow exceeds \$1,000/unit, the excess may be used for repairs to the project or construction of an addition.
- **Appraisals** may use a cap rate derived from the band-of-investment method with the equity return fixed at 6.0%, using the property's Section 8 rents and market rents for unsubsidized units.
- **Meals Service:** HUD may permit meal service under certain circumstances: if provided continuously since September 30, 1991; income and expense must be excluded from underwriting; and HUD determines that the program has been self-sustaining.
- The HUD-insured mortgage may be used as credit enhancement for tax exempt bonds on a Low Income Housing Tax Credit (LIHTC) transaction.
- A **developer fee** is permitted, which is paid from tax credit proceeds if LIHTC are claimed or from mortgage proceeds if LIHTC are not claimed. The fee is either calculated using the State tax credit allocating agency's formula for LIHTC projects or is 15% of Direct construction costs for non-LIHTC projects.
- Tenant Notification of the Section 202 loan prepayment is required (prior to prepayment request to HUD)
- A HUD Section 241 Supplemental (second) loan may be added to finance additional repairs under certain circumstances.