

FHA INSURED LOANS ~ Multifamily Accelerated Processing (MAP)

ACQUISITION or REFINANCE Of EXISTING OCCUPIED RENTAL APARTMENTS

Section 223(f) Family & Elderly Family Apartments

PROGRAM FEATURES

- Fixed-rate, level pay
- Long term-35 years
- HUD **does not limit** rents, tenant incomes in market rate properties, or return on equity
- Non-recourse
- Fully Assumable

Underwriting Criteria Section 223f Acquisition / Refinance						
Project Type & Loan Size	Affordable			Market Rate		
	DSC	LTV (Loan to Value)		DSC	LTV (Loan to Value)	
		no cash out	cash out		no cash out	cash out
Projects with Section 202 & 202/8 Direct Loans	1.111	90.0%	80.0%	N/A	N/A	N/A
Projects with 90% or more Rental Assistance (Section 8)	1.111	90.0%	80.0%	N/A	N/A	N/A
All Other Projects* <\$75M	1.150	87.0%	80.0%	1.176	85.0%	80.0%
>\$75M	1.250	80.0%	70.0%	1.300	75.0%	70.0%
>\$100M	Use >\$75M Criteria, can be adjusted by HUD (case by case)					

* Affordable must be income restricted and have rents at least 10% below Market

Notes:

- A Loan Limitation based on a locally adjusted Statutory \$/unit plus land value will also be calculated.
- Acquisition Loans are limited to the LTV percentage applied to transaction Costs, therefore they do not provide cash out.
- Large Loan Criteria do not apply to projects with 90% or more Project-Based Section 8.
- Large Loan Criteria do not apply to LIHTC projects with rents that are at least 10% below-market.
- Section 202 Refinance: Cash out is tightly restricted, please refer to the related HUD Notices & Memos.

QUALIFYING PROPERTY

- Rental property of five or more units, at least 3 years from the date of the last C of O
- Repairs do not require Davis Bacon wages and cannot exceed:
 - the replacement of one “Building System” (i.e., one System is allowed, two is not)
 - \$15,000 times the local high cost factor (typically totals about \$40,000/unit)
- **Affordable** transactions must meet the criteria for Low Income Housing Tax Credit (LIHTC) properties (20% of the units with incomes set at 50% of AMI **or** 40% of the units at 60% of AMI) and have a recorded regulatory agreement enforcing the affordability restriction by a governmental agency for 15 years. Tax credits are not required as long as the LIHTC standards are met.
- Maximum allowable commercial space and income: 25% of total net rentable area and 20% of effective gross income.
- Existing Section 231 properties are not eligible for Section 223f due to the nature of the age restrictions (see Elderly section below).

LOAN AMOUNT – Section 223f

- FHA will insure a loan sized at the lowest of the various tests described in the chart above. The Borrower can also choose to request a lower loan amount.
- For Acquisitions, costs include the cost of acquisition, repairs, reserves for replacement, soft costs, and fees; no cash-out is permitted.
- For Refinances, costs include the outstanding debt, repairs, reserves for replacement, soft costs, and fees; FHA lends the greater of 100% of the costs or 80% of value to take cash out.

NON-RECOURSE

The loan is non-recourse. An individual and an entity with the appropriate financial capacity are required to sign a section of the Regulatory Agreement addressing the non-recourse “carve-outs” identified as **Section 50**. The provisions of this paragraph do not alter the non-recourse nature of the loan but do require the signatories to accept personal liability for certain improper acts (fraud, theft of funds, unapproved transfer) which they personally committed or the misuse of project funds they authorized or received. For more detailed information, please contact AGM and see the Regulatory Agreement posted on HUD’s website (HUD Form 92466M); we have also posted a HUD Non-Recourse Policy Description on our website, www.AGMFinancial.com.

PERMITTED AGE RESTRICTIONS – ELDERLY HOUSING

The entire property must be restricted - “Dual Purpose” facilities which age-restrict only a portion of the community are not allowed. Overall, HUD Guidelines allow for the use of three types of age restrictions:

- A. **All residents** must be age **62 or older** (62+) (used in Section 231), or
 - B. **Head of household** must be age **62 or older** (62+ HOH), all other members of the household may be any age (i.e., younger spouses, children & grandchildren) (used in Section 221(d)), or
 - C. Households with **at least one** age **55+** resident at properties which qualify for an exemption from the familial status provisions of the Fair Housing Act, and which comply with HUD’s programmatic requirements. These properties must be at least 80% occupied by at least one 55+ resident, they must publish and adhere to policies demonstrating the intent to serve this age group, and must comply with HUD’s rules for verification of occupancy. This category excludes properties with project-based Section 8.
- **Market Rate Projects:** Only “B” above, 62+ HOH, is eligible for a Section 223f loan.
 - **Affordable Projects:** Restrictions “B” and “C” above are eligible for Section 223f, 62+ HOH and certain 55+ age restrictions for existing communities.

LOAN TERM

- The lesser of 35 years or 75% of the Remaining Economic Life (REL) of the property. For older properties, HUD is concerned about both their physical and economic lifespan and a thorough REL analysis is required to demonstrate a sufficient lifespan to use a 35-year term.

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 by the GNMA investor - after HUD issues a Firm Commitment and before Endorsement. There is a 0.5% Good Faith Deposit required to lock the rate, which is refunded at closing. The lowest interest rate is associated with declining prepayment penalties, which vary depending on market conditions. Two typical schedules are:
 - 10% penalty in years 1-5, then 5%, 4%, 3%, 2%, 1% and none after year 10
 - 10% penalty in year 1, then declining 1% per year and none after year 10

SECONDARY FINANCING

- All second debt must be fully subordinated to the HUD-insured loan, repaid solely from 75% of surplus cash, and the term must equal or exceed that of the HUD insured loan.
- Public secondary debt from federal, state, or local agencies is permitted in any amount and may be secured by the property.
- Private secondary debt is allowed only if the sum of the HUD-insured first mortgage and the second debt is less than 92.5% of the value of the property, and **must be unsecured**.

UNDERWRITING / CLOSING PROCESS

AGM will prepare a preliminary mortgage calculation. If this calculation indicates that the project qualifies for a HUD-insured loan acceptable to the Borrower, AGM will schedule a site visit with the Borrower and informally discuss the project with the local office of HUD. The formal application is made in two stages.

1. Concept Meeting: Although they are usually not needed for 223(f), if necessary AGM would prepare a brief synopsis of the transaction for HUD followed by a meeting or conference call with HUD, AGM, and the Borrower. The meeting gives the Borrower an opportunity to discuss significant issues and HUD's pipeline. HUD will either encourage or discourage an application.
2. Firm Commitment Application: The application includes an appraisal, Phase I, Form HUD-4128 (further environmental investigation), a capital needs assessment (CNA), management documentation, and all mortgage credit documents. Projects with 200-350 units or loans of \$20M - \$50M will be reviewed by a **Hub loan committee** and larger projects will be reviewed by the **National loan committee**. HUD will issue a Firm Commitment or reject the application.
3. Commitment & Closing: Once AGM receives a Firm Commitment from HUD **acceptable to the Borrower**, the debt is competitively bid by AGM to various GNMA Investors. The Borrower's closing attorney prepares the HUD closing package with HUD's and the lender's closing attorneys. Closing is scheduled by HUD after their legal review.
4. Servicing: AGM's Servicing division will monitor and manage payments, escrows, reserves, inspections and any other needs

REPAIRS

- **Critical Repairs** are those which affect the health and safety of residents, conditions that adversely affect ingress or egress, accessibility deficiencies (Fair Housing, Section 504 & ADA, as applicable), and those preventing sustaining occupancy. Critical Repairs must be completed prior to closing, although a waiver is possible under certain circumstances.
- **Non-Critical Repairs** are all other necessary or useful repairs which are currently needed, or anticipated in the near future. Non-Critical Repairs may be deferred until after closing, but must be completed within 12 months after Endorsement. The cost of remaining repairs and an additional 20% for completion assurance will be escrowed at closing (10% for Section 202 properties). A detailed work write-up for repair items is required, listing quantities and unit prices. The owner will certify the completion of repairs, and HUD may choose to inspect. **An Architect and General Contractor may be required, depending on the level of work.**

MORTGAGEABLE FEES

- HUD Application Fee 0.3% of the mortgage
- Financing/ Debt Placement 3.5% of the mortgage (maximum)
(5.5% for bond transactions)
- First Year MIP See annually published MIP rates
- HUD Inspection fee Depending on project size:
 - If Repairs are over \$100,000 but \$3,000 or less per unit: \$30/unit
 - If Repairs are over \$100,000: the greater of 1.0% of repairs or \$30/unit
 - If Repairs are less than \$100,000: \$1,500 (waivable)
- Third Party Review Fees Appraisal, Environmental Reports, Capital Needs Assessment (CNA), Closing Due Diligence

ANNUAL FEES AND RESERVES (Paid Monthly)

- Mortgage Insurance Premium Reset annually by HUD but fixed for each loan at time of Firm Commitment
- Reserve for Replacements Set by HUD at Firm Commitment, based on CNA
- Taxes and Insurance Adjusted Annually

CASH ESCROWS or LETTERS OF CREDIT

- 120% of the cost of repairs (100% of budgeted cost plus 20% completion assurance), except for Section 202 refinance and LIHTC Pilot transactions which are 110%; posted at Closing and released after repairs are completed.
- Operating Deficit for properties with impaired operations: posted at Closing and released as needed or after 6 consecutive months of 1:1 DSC.

REFINANCE -- PROJECTS WITH HUD SECTION 202 LOAN OR GRANT

Refinance of **HUD Section 202** projects is subject to extensive requirements outlined in several Notices: 2013-17, 2012-8, 2010-14, and 2004-21. Please contact AGM for details.

OTHER PROGRAM FEATURES

- Davis-Bacon (prevailing) wages are not applicable.
- MAP processing requires a 3rd party appraisal, environmental, and a Capital Needs Assessment (CNA) at your expense. For properties over 30 years old, the CNA will most likely include some intrusive investigation. AGM completes an REO analysis, mortgage credit, and management review.
- The CNA includes a capital needs analysis which will establish the Initial Deposit to Replacement Reserves (IDRR) amount and the annual Reserves escrow to be required. The analysis is focused on meeting scheduled capital needs during the first 10 years but also must address any projected shortfalls in years 11-20, with some limitations on the amounts of projected shortfalls.
- The Initial Deposit to Replacement Reserves can be financed with mortgage proceeds.
- Modified environmental review for conditions associated with noise, flood plains or wetlands, historic location, toxic wastes, lead-based paint, asbestos, Radon, VOC's. Capped sites and monitoring wells are acceptable.
- Equal employment and equal housing opportunity requirements apply.
- ADA & Fair Housing compliance is required
- Rents and expenses must be comparable to the marketplace for the property after repairs.
- Maximum Residential occupancy for underwriting for debt service mortgage calculations is 93%, or 95% for projects with 90% or more Rental Assistance (Section 8) or Affordable properties with rents that are at least 20% below market.
- Maximum Commercial occupancy rate is 90% and this criteria must be incorporated in the appraisal.
- The Appraisal used for LTV calculations is based on market rents, vacancy, expenses, and cap rate for the property after completion of the budgeted Repairs.

- Annual HUD-compliant audit is required; release of surplus cash is at a maximum of every 6 months.
- Prepayment is not permitted during the first five years of the loan unless the owner agrees to maintain the property as rental housing for the remainder of the five year term (some exceptions are possible).
 - The FHA 223(f) LIHTC Pilot Program was intended to streamline applications for three specific types of LIHTC projects. AGM was an approved Lender for this program, however, the program has effectively expired.
- Project is subject to REAC (Real Estate Enforcement Center) inspections to assess the physical condition of the property and ensure acceptable quality.
 - Score above 90 allows re-inspection every 3 years
 - Score above 80 allows re-inspection every 2 years

FINAL NOTE:

The MAP Guide published by HUD describes these program requirements in detail, is more than 700 pages long and is revised from time to time. In addition, a number of HUD Notices and Memos have revised and refined the program requirements over the years. AGM has made a good faith effort to summarize the most important program parameters in this document but other conditions may apply to specific project circumstances.