So, you're considering a HUD 223(f) Loan/Refinance?

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Of the many HUD and FHA loan programs, the HUD 223(f) program, created for acquiring or refinancing multifamily properties, has several pros and cons. These loans also have a variety of advantages and disadvantages for investors and developers. There are a number of terms, qualifications and guidelines to keep in mind when considering if the 223(f) program is right for your organization. While affording a great amount of leverage, loans have low interest rates and are non-recourse but require significant documentation and processing time.

Advantages of HUD 223(f) Loans

- Borrowers are allowed higher loan-to-value (LTV) ratios. The typical LTV ratio is 87% for affordable housing, 90% for project-based rental assistance properties (i.e., Section 8, Section 202) and 85% for market-rate properties.

- The Debt Service Coverage Ratio (DSCR) minimums are set to accommodate affordable housing, rental assistance, subsidized housing properties and market rate properties at 1.15x, 1.11x and 1.15x respectively.

- Loan amortization periods of 35 years compared to 30 years, which equates to lower monthly payments.

- Loans are non-recourse and carry low fixed rates which eliminates the risk of refinancing at a higher rate. No big balloon payments either.

Disadvantages of HUD 223(f) Loans

- Various federal compliance requirements to maintain the funding are:
  - Annual audit requirement
  - HUD property inspections
  - Required deposits into reserve and escrow accounts

- There are also various restrictions related to owner distributions:
  - Certain restrictions on cash-out refinances
  - Limited owner distributions

- Longer loan processing times (100-120 days), which can lead to uncertainty regarding rate locks.

Sample Terms, Qualifications and Guidelines of HUD 223(f) Loans

Now that we have outlined a few of the advantages and disadvantages of 223(f), let's take a look at some of the standard terms, qualifications and guidelines:

- **Eligible properties** – Multifamily properties with at least five units, including various classifications, such as affordable housing, market-rate and cooperative housing properties

- **Eligible borrowers** – Non-profit, for-profit borrowers or public owners are eligible for the program

- **Commercial space** – Limited to 25% of total net rentable area and 20% of the underwritten gross income

- **Repairs and replacements** – Repairs can't exceed $15,536 adjusted for inflation per unit, multiplied by the high-cost factor for the area

- **Prepayment of debt** – Negotiable

- **Escrows** – Escrows are required for taxes, insurance and mortgage insurance premium with monthly payments required

- **Mortgage insurance premium (MIP)** – At this time, MIP of 1% is due to HUD at closing, with an additional 0.60% annually for market rate projects or 0.25%-0.35% for affordable, subsidized and energy certified properties

Weighing the Options

When considering if the 223(f) program is right for you, it is important to weigh all the options. While the loan processing time is a bit longer than traditional mortgage financing loans and comes with additional compliance requirements, the extended mortgage term reduces the need for future refinancing and may mitigate the interest rate risk. The non-recourse feature removes personal liability and the mortgage costs paid up front; however, once amortized can be less costly when compared to the costs associated with a refinance occurring within the first five or ten years.

Contact Us

If you have any questions or need additional information, please contact the partner in charge of your account or:

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