

## FHA INSURED LOANS ~ Multifamily Accelerated Processing (MAP)

### STREAMLINED REFINANCE Of EXISTING OCCUPIED RENTAL APARTMENTS with EXISTING FHA INSURED LOAN

#### Section 223(a)(7) Family & Elderly Family Apartments

##### PROGRAM FEATURES

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

| Underwriting Criteria<br>Section 223(a)(7) Refinance               |            |                                   |                                       |
|--|------------|-----------------------------------|---------------------------------------|
|  | <u>DSC</u> | <u>% of Cost<br/>to Refinance</u> | <u>% of Original<br/>Loan Balance</u> |
| <b>Projects with 90% or more<br/>Rental Assistance (Section 8)</b> | 1.05       | 100.0%                            | 100.0%                                |
| <b>All Other Projects</b>  | 1.11       | 100.0%                            | 100.0%                                |

##### Notes:

- Large Loan limits do not apply to Section 223(a)(7).
- No cash out is allowed, although HUD will finance all transaction costs & repairs if there are sufficient loan proceeds.
- Section 213 Cooperative Housing loans use Rental Assisted criteria above

**QUALIFYING PROPERTY**

- Rental property with existing FHA Insured Loan in place. Loans may be in default, but not assigned at the time of application.
- A Re-cast FHA-insured loan and PPC second mortgage may be refinanced using this program under certain conditions.
- Maximum allowable commercial space and income are based on the Section of the Act which was used for the existing FHA insured mortgage:

| <b><u>Section</u></b> | <b><u>% of NRA</u></b> | <b><u>% of EGI</u></b> |
|-----------------------|------------------------|------------------------|
| 221(d) & 231          | 25%                    | 15%                    |
| 220                   | 25%                    | 30%                    |
| 223f                  | 25%                    | 20%                    |

- **Ineligible properties** include those with:
  - HUD-held mortgages,
  - Coinsured mortgages,
  - Section 542 Risk-Sharing mortgages,
  - Section 202 direct loans or capital advances, and
  - Section 811 capital advances

**LOAN AMOUNT – Section 223(a)(7)**

**The loan will be the least of:**

- 100% of the Original Balance of the FHA Insured Loan, or
- 100% of the sum of the costs of the transaction: outstanding debt, repairs, reserves for replacement, soft costs, and fees, or
- Program percentage of the estimated NOI divided by current debt service factor (if the property is restricted, use the restricted rents). The percentages in the above chart may be waived by HUD to allow struggling properties to be refinanced at lower interest rates, reducing debt service and, therefore, HUD’s risk.

**PERMITTED AGE RESTRICTIONS**

- Existing age restrictions will remain in place; the new loan will continue to be governed by the criteria applicable to the Section used for mortgage insurance on the existing loan.

## 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 10% for completion assurance will be escrowed at closing. 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.
- **Repairs are limited to a maximum of \$1,500/unit, excluding the cost of necessary accessibility upgrades.**

## LOAN TERM

- The term can be increased from the remaining term in many cases, with HUD's approval. For older properties, HUD is concerned about both their physical and economic lifespan and a thorough analysis of the Remaining Economic Life (REL) is required to demonstrate a sufficient lifespan to retain the maximum term. Maximum is the lesser of:
  - 1) the maximum set by the original loan term, and
  - 2) the remaining term plus 12 years.

## 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. The loan will be purchased 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
- Unlike other HUD loan programs, the Lender is allowed to sell the loan at a premium to generate funds to be used specifically for part or all of the owner's pre-payment penalty or defeasance/yield maintenance due on the existing first mortgage. This allows the Lender to incorporate the cost of the penalty into the interest rate, reducing the owner's cash requirement but increasing the interest rate on the new loan.

## SECONDARY FINANCING

- Existing second debt must be fully re-subordinated to the new HUD-insured loan; lenders may require some compensation for their cooperation, including payment of some or all accrued interest or at least partial payment.

## NON-RECOURSE

Although 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](http://www.AGMFinancial.com).

## 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 one or two stages.

1. Concept Meeting (Optional at HUD’s discretion): If the project is struggling or there is some other significant issue with the project, HUD may require a Concept Meeting. AGM will 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 parties an opportunity to discuss the issues and how they will be addressed. HUD will decide whether or not to encourage an application.
2. Firm Commitment Application: This application includes a capital needs assessment (CNA), 3 years of financial statements, occupancy history, and limited mortgage credit documents. HUD can waive the CNA for newer or recently inspected properties. HUD loan committee reviews do not apply. 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 Borrower's closing attorney prepares the HUD closing package with

HUD's and Lender's closing attorneys. The debt is competitively bid by AGM to various GNMA Investors. Closing is scheduled by HUD.

4. Servicing: AGM's Servicing division will monitor and manage payments, escrows, reserves, inspections and any other needs.

### MORTGAGEABLE FEES

- HUD Application Fee                      0.15% of the mortgage, paid at application
- Financing/ Debt Placement              2.0% of the mortgage, maximum
- First Year MIP                              Based on the Annual rate, paid at closing
- 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 by the Hub)
- Third Party Review Fees                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
- Taxes and Insurance                      Adjusted Annually

### CASH ESCROWS or LETTERS OF CREDIT

- 110% of the cost of repairs (100% of budgeted cost plus 10% completion assurance); posted at Closing and released after repairs are completed.
- Operating Deficit may be required for properties with impaired operations.

## OTHER PROGRAM FEATURES

- Cash out to the Owner is not allowed.
- Davis-Bacon (prevailing) wages are not applicable to repairs.
- MAP processing requires a Capital Needs Assessment (CNA) at your expense. For properties over 30 years old, the CNA will most likely include some intrusive investigation. For recently built projects the CNA may be waived.
- The CNA will include a 20-year capital needs analysis used to establish the Initial Deposit to Replacement Reserves (IDRR) amount and the annual Reserves deposit to be required. The amounts must be sufficient to cover capital repairs budgeted for the first 10 years, with certain minimum escrow balances required thereafter.
- Typically, the existing Reserves escrow balance will be rolled over as the IDRR.
- AGM completes an REO analysis and limited mortgage credit review.
- Rents and expenses are typically underwritten based on the recent operating history.
- Underwriting of commercial space has separate requirements, see MAP Guide for details.
- The required minimum vacancy rate for Commercial space is 10%.
- A new “as-built” survey is not required if the owner certifies that there have been no changes to the land or buildings since the original survey was filed with HUD.
- Lead-Based Paint testing is not required
- Equal employment and equal housing opportunity requirements apply.
- ADA & Fair Housing compliance is required
- Refinance of **former HUD Section 202** projects will eliminate the property’s MAHRAA exemption, making the Section 8 rents subject to mark down to market. A loan modification to reduce the interest rate may be preferable to a refinance, as it does not affect the MAHRAA exemption. Please contact AGM for details.
- Annual HUD-compliant audit is required; release of surplus cash is at a maximum of every 6 months.
- 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

This information was assembled from several Notices and other publications. The MAP Guide describes some 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 and other documents, but other conditions may apply to specific project circumstances.