AGM FINANCIAL SERVICES, INC.
PH: 410.727.2111
FX: 410.727.3233
20 South Charles Street, Suite 1000
Baltimore, MD 21201
www.agmfinancial.com

FHA INSURED LOANS ~ MULTIFAMILY

INTEREST RATE REDUCTION FOR EXISTING FHA INSURED LOAN

Sections 221(d), 220, 231, 223(f), 223(a)(7)

SUMMARY

HUD allows a loan restructuring called **Interest Rate Reductions** on existing HUD-insured multifamily loans which are not locked out from prepayment. Instead of a refinance, this process involves redemption of the existing GNMA mortgage backed securities and replacing them with newly issued GNMA's at a lower interest rate. The HUD-insured loan remains in place, with reduced payments based on the new rate, the current balance and remaining term. Since the loan balance remains unchanged, no cash-out is possible. The borrower must pay the transaction costs out of pocket, except for the prepayment penalty which may be funded by a premium on the new loan, increasing the new rate but reducing out of pocket costs.

For specific guidance, see HUD's Memorandum of April 19, 2013 which applies to the Multifamily mortgage insurance programs listed above; it does not apply to Healthcare properties insured under Section 232.

QUALIFYING PROPERTY

- Rental property with existing FHA Insured Loan in place. Loans may be in default, but not assigned at the time of application.
- The Memorandum does not apply to projects that require HUD to waive prepayment penalties or to override lockout provisions to avoid a mortgage insurance claim. The requirements for those projects are detailed in HUD Handbook 4350.1 and are not addressed in this Program Description.
- Property must achieve 1.05 DSC after the interest rate reduction; the existing MIP rate will remain unchanged.

- **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 – All Sections – Current mortgage balance

LOAN TERM – All Sections – Remaining term of the mortgage

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 an approval letter and before Closing. There is a 0.5% Good Faith Deposit required to lock the rate, which is refunded at closing.
- Prepayment penalties and discounts vary depending on market conditions. The lowest interest rate is currently associated with a 10% pre-payment penalty for the first five years, then 5%, 4%, 3%, 2%, 1% and none after year 10.
- 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 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.
- It may be possible to include some other transaction costs such as the Lender fee, borrower legal, and title/recording in the premium, but this should be discussed with HUD for each modification. Those costs not included in the premium would be paid for with owner's equity. To avoid investing new funds in the project, we recommend obtaining HUD's pre-approval to pay these costs with Project funds so they are an allowed project cost prior to the annual HUD required audit.

SECONDARY FINANCING - Remains in place; no re-subordination required

UNDERWRITING PROCESS

AGM will prepare a preliminary mortgage calculation. If this calculation indicates that the project qualifies for an interest rate reduction, AGM will informally discuss the project with the local Hub. The formal application cannot be submitted to HUD until any existing lockout provision has expired.

- Interest Rate Reduction Request: The Lender (AGM in conjunction with the Servicer) will prepare and submit a package which includes a summary of the transaction, Sources & Uses, DSC analysis, recent financial statements, certain disclosures, and draft closing documents. Requests for Defaulted loans would also include a PCNA and analysis of Replacement Reserves (waivable for newly constructed or renovated properties). HUD loan committee reviews do not apply. HUD will issue an Approval letter or reject the request.

COMMITMENT and CLOSING

- Once the Lender receives an Approval letter from HUD acceptable to the Borrower, the new debt is competitively bid. The Borrower's closing attorney finalizes the HUD loan modification package with Lender's and HUD's attorneys.

FEES

• Financing / Debt Placement	Typically a modest fixed Lender fee plus legal cost
• Third Party Review Fees	Property Capital Needs Assessment (PCNA) may be required for older or defaulted properties

ANNUAL FEES AND RESERVES (Paid Monthly)

• Mortgage Insurance Premium	Continues, unaffected by the rate reduction
• Reserve for Replacements	Continues, unaffected by the rate reduction
• Taxes and Insurance	Continues, unaffected by the rate reduction

OTHER PROGRAM FEATURES

- Cash out to the Owner is not allowed.
- Processing for defaulted loans may require a Property Capital Needs Assessment (PCNA) at your expense. For properties over 30 years old, the PCNA will most likely include some intrusive investigation.
- Interest Rate Reduction of loans to former **HUD Section 202** projects will maintain the property's MAHRAA exemption, preventing a Mark-to-Market reduction to the Section 8 rents. In contrast, an actual HUD-insured refinance would not maintain the exemption.
- Rents and expenses are typically underwritten based on the recent operating history.
- Since this is the modification of an existing loan, only the current Lender can perform the modification.

NON-RECOURSE

The existing non-recourse provisions will remain in place; Section 50 will not be applied to older loans.

[For new loans, HUD now requires that an individual and an entity with the appropriate financial capacity 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.]

FINAL NOTE

The HUD Memorandum describes this new process in detail, however, the requirements and the process are still being refined. AGM has made a good faith effort to summarize the most important program parameters in the various HUD resources, but other conditions may apply to specific project circumstances.