

# FHA 223(f) Financing Affordable Multifamily Refinance and Acquisition



## For affordable multifamily, FHA is the way.

FHA-insured financing to acquire or refinance affordable multifamily projects offers fixed rates, higher leverage, and longer amortization. It works very well with LIHTC and soft debt.

FHA-insured financing for acquisition or refinance is available with:

- **1.11 debt service coverage**
- **90% loan-to-value**
- **100% of cost (existing debt plus transaction costs)**

**Affordable projects can take advantage of more favorable FHA underwriting.**

Debt service coverage and loan-to-value vary depending on the affordability of the project. Properties with project-based Section 8 get the highest LTVs and the lowest coverage, while LIHTC projects are underwritten depending on their rent advantage versus market.

All FHA-insured loans for acquisition or refinance are fully amortizing with a 35-year term, and loan proceeds can be used for moderate rehab, typically up to about \$54,000 per unit.

Interest rates on FHA-insured loans are **fixed** just before closing and remain fixed for the life of the loan. FHA-insured loans are **fully assumable** and **prepayable** at any time, subject to declining prepayment penalties.

### Process

The process for obtaining an FHA-insured loan for acquisition or refinance has two steps: a concept meeting and a firm application.

The **concept meeting** is your chance to talk directly with HUD staff about your project. For the concept meeting, AGM will prepare a concept package including current financials, an as-stabilized *pro forma*, an existing Phase 1 environmental study, and background on the development team. Photos, site plans, and building are helpful too.

The goal of the concept meeting is an encouragement letter from HUD, opening the way to the firm application and identifying any issues or concerns from HUD staff. There is no cost for the concept meeting, no fee to HUD, and no fee to AGM.

The **firm application** includes a current rent roll, current and trailing financial statements, and a current appraisal ordered by AGM, along with a HUD-compliant Phase 1 or Phase 2 report. The application fee to HUD at this stage is an additional 0.30% of the mortgage amount.

The firm application also includes a project capital needs assessment (or 'PCNA') detailing any critical repairs - health and safety items and any repairs or modifications needed to comply with Fair Housing and ADA standards. Noncritical repairs are noted as well. Critical repairs must be completed prior to closing. Noncritical repairs must be completed within twelve months of closing. An escrow of 20% of the cost of the noncritical repairs is posted at closing. Prevailing (Davis Bacon) wages are not required for critical or noncritical repairs.

## Process (continued)

The PCNA includes a schedule of your property's projected capital needs over time, usually twenty years. The schedule will be used to estimate the cost of those capital items in the future, along with the initial and ongoing deposits to the replacement reserve.

## Timing

Generally, the entire process, from AGM's initial loan sizing to closing, takes four to six months, depending on the performance of the property and the time needed to get the appraisal, PCNA, and an updated (and HUD-compliant) environmental report.

## MIP

In exchange for providing mortgage insurance (and making your loan nonrecourse), FHA charges a fee in the form of a Mortgage Insurance Premium, or MIP. The annual MIP is 0.25% of the outstanding mortgage balance.

The first year's MIP is paid at closing. After closing, one-twelfth of the annual MIP is paid with your monthly mortgage payment.

## Costs and Fees

Fees associated with an FHA-insured loan for new construction include:

- A HUD application fee equal to 0.3% of the mortgage.
- A financing fee to AGM paid at closing.
- Lender legal fees.
- Third-party costs such as appraisal, PCNA and environmental reports.
- The first year's mortgage insurance premium.
- Escrows for taxes and insurance.
- An initial deposit to the replacement reserve may be required at closing.

*Founded in 1990, AGM is a leading FHA lender and GNMA seller/servicer. Family-owned with over 30 years of experience, the firm has closed over \$10 billion in FHA-insured multifamily project loans nationwide. We underwrite, fund, and service all of our loans. Developers and owners can count on AGM to be accessible, transparent, consistent, and ready to lend.*



**We welcome the opportunity to discuss how AGM can help you close your next deal.**  
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