BedfordLending

Newly Constructed Project Stabilization Requirements

In early 2020, HUD announced a major change to their 223(f) refinance program which was further expanded upon with the publication of HUD's multifamily underwriting guide in December 2020.

Previously, if you did not use HUD to construct an apartment building, you could not refinance with HUD for **three years** post-certificate of occupancy. That arbitrary waiting period is now removed. HUD will now accept refinance requests when they hit the following metrics:

- A loan application can be **submitted** to HUD after the property has achieved the programmatic HUD debt coverage ratio (1.11x-1.176x) for **no less than one full month**. 1.11x coverage is required for affordable apartment buildings. 1.176x is required for market rate apartment buildings. This is different from a minimum **occupancy** threshold. Theoretically if a property was only 70% occupied, but had strong enough cash flow that it could meet HUD's debt coverage requirements (based upon the size of the HUD 223(f) refinance/takeout loan), the package could be submitted to HUD. Again, HUD is looking for this debt coverage based on the **new loan.** If you presently have 1.20 DCR on a $7mm loan, and are looking for a $10mm cash-out loan with HUD, you'd need to support the minimum debt coverage on the $10mm loan sizing.
- The project must maintain this debt coverage for **three consecutive months prior to closing**. To reiterate, you need one month of debt coverage to submit to HUD and then three consecutive months must be held prior to closing. The three consecutive months can be secured while HUD is reviewing the underwriting package. If you dip below the required DCR levels at some point in this three month period, it is likely HUD will decline the request and you will have to start over.
- HUD will need to see an income and expense statement from time of initial occupancy to submission, along with rent rolls and a leasing-history. Concessions, short term leases and other discounts to incentivize tenants to enter into a lease will need to be delineated.
- The DCR HUD is looking for will be based on actual in-place rents and expenses, not hypothetical appraised values.
- Cash-out is allowed, however 50% of the available cash-out will be held until the project maintains the above referenced debt coverage for **six** consecutive months.