



# HUD 223 (f) - Refinance

Prepared by Bedford Lending

# Bedford Lending Corp.

- Company formed in 1991
- Approved to finance both Apartments and Healthcare Loans
- Management averaged 30 years commercial experience
- Maintain highest designation – MAP and LEAN Approved
- Direct FHA and USDA Lender
- Certified to underwrite HUD loans Nationwide
- Have closed over \$3 billion in loans

# Description

- The 223(f) program provides long term fixed rate financing for refinance, acquisition or moderate renovations of multifamily projects nationwide for profit and non profit entities. Tenants can be 100% market rate, 100% subsidized or a combination. Many properties have HAP contract and Section 8 vouchers.

# Finance Opportunities

- Rate and term refinance
- Refinance and moderate rehab of existing buildings
- Single buildings or Blanket Properties – 5 units or more
- Senior Housing – 62 and Older
- Single Room Occupancy (Rooming House)
- HAP or Section 8 Properties
- 202 Properties
- 236 Properties

# Loan Features

- Term - Maximum 35 Years
- Rate: Fixed Rate for the life of the loan
- Non-Recourse
- Assumable – Yes
- Prepayment – Negotiable – Generally declining 10 year
- Commercial Space – Maximum 25% of net rental area and 20% of effective gross income

# Underwriting Requirements

- L to V:
  - 85% – Rate and Term
  - 80% (Cash Out) – Rate and Term
- DCR:
  - Properties with 90% or greater rental assistance – 1.11x
  - Affordable for profit – 1.15x
  - Market rate – 1.176x
- Occupancy – property must have an average physical occupancy of 85% for a period of at least six months. The property must maintain this level of occupancy during the processing stage and HUD requires an updated rent roll 30 days prior to closing.
  - Market Rate – Maximum underwriting is 93% occupancy.
  - Affordable - Maximum underwriting is 95% occupancy if a property has (i) at least 90% of the units covered by rental assistance, or (ii) affordable rents restrictions on 100% of units with all unit rents at least 20% below comparable market rents.

Market Study – May be required in volatile or declining markets.

Reserve for replacement – Determined by PCNA

# Type of Tenants

- A common myth is that the property must offer reduced rents or subsidies to qualify for the program. **This is not accurate.** Most properties are 100% market rate. A project can however be 100% subsidized (Section 8 Vouchers and HAP Contracts) or offer a combination of Market and Subsidized rents.

# Case Studies





# Acquisition and Rehab – 95% Financing



# Acquisition and Rehab Loan

## Challenge

- A developer was seeking 95% financing to acquire and rehab a vacant municipal building. His goal was to renovate the property into 72 apartments and wanted the option to sell the units as condos in the future.

## Solution

- BLC allowed the client to substitute his builders profit as an equity credit and funded a \$5.7m HUD loan. The combined HUD loan and equity credit created 95% financing. The loan was structured with a 3 year prepayment and the client paid off the loan after 3 years and sold the units as condos.

# New Construction – 98% Financing



# New Construction – 98%

## Challenge

- Our client was looking for maximum financing to construct a 60 unit apartment building.

## Solution

- Bedford Lending funded a HUD loan that financed 98% of the land and acquisition for the development of a 60 unit apartment building. The total construction costs were \$5,700,000. BLC funded \$5,100,000 non-recourse, 40 year first mortgage and credited the client with a \$450,000 builders profit credit. The combination of the loan and credit provided **98%** financing.

# Distressed Acquisition and Rehab



# Details

- Client acquired 25 buildings totaling 250 units for \$4.1m
- Bank funded \$3.1m and secured \$1m in seller financing – 100% financing
- Property was 50% occupied and suffered from deferred maintenance

## Challenge

- Client could not secure bank financing because they had no equity in the deal
- Banks would not underwrite on future rents

## Solution

- BLC assessed market and determined that it was a value purchase and that demographic trends were favorable
- We funded a \$9.1m, 40 year loan, that paid off the first and second and provided \$5m to complete capital improvements
- Units were all rehabbed and the client has engaged broker to sell for 100k per unit. Sale will result in \$16m profit.

# HUD and Tax Credit – 100% Financing



# Details

- Client owned a 200 unit apartment building and was looking to cash out to acquire a distressed property.

## Challenge

- With the tightening credit market, client could only secure 65% loan to value which did not provide enough proceeds.

## Solution

- BLC underwrote and funded a loan at 80% loan to value which provided over \$5m cash out to acquire the property. The client is in the process of selling property and new owner will assume the HUD loan.



# In Summary

- HUD is one of the best options for acquisition financing.
- Provides up to 90% financing.
- Can underwrite on value of property if it is higher than the purchase price. This allows the borrower to finance a portion of the closing fees.

# Qualification Process – Const or Rehab

1. Secure construction numbers and projections
2. BLC to complete free financial analysis. Look at HUD, USDA, Low Income Housing Tax Credits as well as New Market and Historical Tax Credits to determine all options.
3. Once economics are determined we call a market specialist and appraiser to validate assumptions.
4. If results are favorable we convene a meeting in HUD office to review findings.
5. If favorable, start process. Generally takes 3 months for acquisitions and refinances.

# Contact Information

- We invite you to call and discuss prospective loans so we can complete a free evaluation of the loan/sales opportunity. Our extensive experience in HUD and tax credits allows us to develop creative finance strategies.

# Contact

[www.bedfordlending.com](http://www.bedfordlending.com)

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