



LOVE FUNDING

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FHA Multifamily Debt Update October 24, 2013

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HUD Section 221(d)(4)

New Construction or Substantial Rehab

	Market Rate	Affordable	>90% Rental Assistance
Maximum Term	40 years fully amortizing		
Debt Service Coverage	1.20x	1.15x	1.11x
Loan to Replacement Cost	83.3%	87%	90%
MIP (1.0% at closing)	.60%	.45%	.45%
Maximum Underwritten Occupancy	93%	93%	95%
Working Capital Escrow	4% of loan amount		
Annual Replacement Reserve	Greater of: 1) .60% of total structure cost for new construction or .40% of loan amount for rehab or 2) \$250 per unit per year. HUD considers waivers when formula exceeds \$500 per unit.		
Initial Operating Deficit	Typically the greater of: 1) amount determined by underwriter, 2) 3% of loan amount or 3) 4 months debt service for walk-up or 6 months debt service for elevator buildings subject to a Certificate of Occupancy issuance.		
Substantial Rehab Threshold	Cost of Repairs, replacements and/or improvements of the existing property must exceed the greater of: 1) 15% of the estimated replacement cost after completion of all repairs and improvements or 2) \$6,500 adjusted regional HUD high cost factor. Additionally, a property can qualify for substantial rehab if two or more building systems are being replaced.		
Other	<ul style="list-style-type: none"> • Davis-Bacon prevailing wage rates apply • Large loans are subject to more conservative underwriting • Subordinate financing is allowed from a governmental source and only in the form of a surplus cash note. 		

HUD Section 223(f)

Refinance or Acquisition

	Market Rate	Affordable	>90% Rental Assistance
Maximum Term	35 years fully amortizing limited to 75% of the remaining economic life		
Maximum Loan is Limited to the Lesser of:	<u>Refinancing</u>		
1) Debt Service Coverage	1.20x	1.17x	1.15x
2) Loan to Value	83.3%	85%	87%
3) Eligible Costs	Greater of: 100% of eligible costs or, if cash out, 80% of market value		
Maximum Loan is Limited to the Lesser of:	<u>Acquisition</u>		
1) Debt Service Coverage	1.20x	1.17x	1.15x
2) Loan to Value	83.3%	85%	87%
3) Eligible Transaction Costs	83.3%	85%	87%
MIP	.65%	.45%	.45%
Maximum Underwritten Occupancy	93%	93%	95%
Replacement Reserve	Initial deposit based on PCNA then annual deposits at the greater of \$250 per unit or as identified in the PCNA		
Other	<ul style="list-style-type: none"> • Repairs can not exceed the greater of \$6,500/unit multiplied by the high cost factor or 15% of the estimated replacement cost after completion repairs. Repairs are also limited to one major building system. • Davis-Bacon prevailing wage rates do not apply to repairs 		

LIHTC Pilot Program

Permanent Financing for Multifamily Housing with LIHTC

Overview	Working within the framework of the 223(f) loan program regulations, HUD created a loan program with a streamlined review process on transactions that are low risk. The Pilot program is designed to expedite application processing to meet tight external deadlines imposed by the LIHTC program.	
Eligible Properties:		
1) Re-syndicated LIHTC projects	Permanent financing for acquisition and/or refinance with moderate rehabilitation up to \$40,000 per unit	
2) Projects with >90% project based rental assistance	Permanent financing for acquisition and/or refinance with moderate rehabilitation up to \$40,000 per unit	
3) New constructed stabilized properties	Permanent financing under waiver of three year rule	
MIP	.45%	
Maximum Loan is Limited to the Lesser of:	Affordable	>90% Project Based Rental Assistance
1) LTV	85%	87%
2) Refinance LTC	100%	100%
3) Acquisition LTC	90%	90%
4) DSC	1.176x	1.15x
5) Dollar Maximum	\$25 million	\$25 million
Other	<ul style="list-style-type: none"> • Davis-Bacon prevailing wage rates do not apply to repairs • New 20 year HAP contract 	

LIHTC Pilot Program

The Devil is in the Details.....

- Although the program allows for up to \$40,000 per unit in rehab, amounts in excess of \$6,500/unit (multiplied by the high cost factor) must be financed with tax credit equity or other sources
- The Pilot Program does not require Davis-Bacon wage rates BUT it may be required by the issuer or other funding sources
- Projects replacing more than one major system are not eligible. Most likely eliminates most 9% deals.
- Non-public entity secondary financing may not exceed 92.5% of value.
- Assurance of completion reserve requirement
- For projects with > 90% project based rental assistance, the capitalization rate may be derived using a band of investment, and the Section 8 contract and any favorable financing specific to the application may be factored into the rate analysis



LIHTC Pilot Program

The Sweet Spot.....

- Re-syndicate Year 15 deals with quality original construction or rehabilitation utilized 4% LIHTC.
- Section 8 projects with 4% LIHTC that do not require the replacement of more than one major system.
- Take out the construction/perm loan on newly constructed and stabilized properties. However, the three year waiver rule will expire soon .



FHA Financing

When the lender is not your only partner.....

- Equity syndicator required DSC may be more restrictive than FHA's
- Higher reserve and/or additional reserve requirements.
- Subordinate financing
- Coordination of third party reports to minimize duplicate costs
- Who holds the escrows and reserves
- Ensuring that the lender and equity provider arrive at the same destination



HUD Update

- Impact of shutdown on FHA loans, in process and to be submitted soon
- FY 2014 MIP rates
- Rental Assistance Demonstration (RAD) program

