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# **Using FHA to Refinance or Acquire Multifamily Properties**

Arbor Commercial Mortgage, LLC

## **FHA Multifamily Programs**

As other capital sources have decreased considerably, borrowers are turning to agency lending for new originations and refinancing of their multifamily projects. The primary benefit of FHA is that it is a source of financing that is always available despite the volatility of the market.

Arbor prepared an overview of the U.S. Department of Housing and Urban Development's (HUD) FHA mortgage insurance programs available for multifamily borrowers to help familiarize borrowers who are accustomed to getting financing through other capital sources, with a focus on the 223 and 232 programs for refinance, acquisition or moderate renovation of multifamily properties.

FHA provides the following mortgage insurance programs:

- **221(d)(4):** Combined construction and permanent financing for multifamily properties – new construction or substantial rehabilitation.
- **223(f):** Refinancing or acquisition of existing multifamily properties – market rate or affordable.
- **223 (a)(7):** Refinance, acquisition or moderate renovation of multifamily properties or healthcare facilities that currently have HUD-insured debt.
- **232:** Combined construction and permanent financing for seniors/healthcare facilities (assisted living, congregate care).
- **232/223(f):** Refinance or acquisition of existing seniors/healthcare facilities.
- **223(f)** for Refinance of existing Section 202 projects.
- **231:** Construction and permanent financing for new or substantial rehabilitation of existing rental property for seniors only (age restricted at 62 or older).
- **213:** Construction, substantial rehabilitation and purchase of cooperative housing.

### **Eligible Borrowers**

For-profit and non-profit single asset entities may utilize all programs.

### **FHA 223(f)**

The 223(f) program provides mortgage insurance for the refinance, acquisition or moderate renovation of existing multifamily projects that are at least three years old. Detached structures and row houses are eligible.

### **What Are the Benefits of the FHA 223(f) Program?**

- Low, fixed interest rate.
- Cash out is allowed subject to 80% loan to value.
- Loan is non-recourse.
- Up to 35-year loan term with 35-year amortization.

### **FHA 223(a)(7)**

The 223(a)(7) program provides mortgage insurance to refinance an existing FHA-insured mortgage.

### **What Are the Benefits of the FHA 223(a)(7) Program?**

- Can be utilized to lower interest rate of currently insured mortgages.
- May increase term/amortization by 12 years.
- Streamlined underwriting reduces transaction costs.
- Fixed interest rate.
- Maximum loan amount is 100% of refinance cost.
- Loan is non-recourse.
- No appraisal or PCA (Property Condition Assessment) reports required.

### **FHA 232**

The 232 program provides insurance for new construction or substantial rehabilitation of to-be-built assisted living and nursing home projects or projects undergoing substantial rehabilitation. Independent living space cannot exceed 25% of total bed count.

### **What Are the Benefits of the FHA 232 Program?**

- Low, fixed interest rate for construction and permanent loans.
- Loan is non-recourse.
- Construction loan plus up to 40-year permanent loan with 40-Year amortization.
- High Leverage for new construction – 90% maximum loan to value for new construction (95% for non-profits).
- High Leverage for Substantial Rehab Projects:
  - Refinance: 100% of the rehab cost for substantial rehabilitation plus the lesser of:
    - A) Existing debt
    - B) 90% of “as is” value (95% for non-profit)

- Purchase: 90% of the rehab cost plus the lesser of:
  - A) 90% of purchase price (95% non-profit)
  - B) 90% of “as is” value (95% for non-profit)

### **FHA 232 Pursuant to 223(f)**

The 232 Pursuant to 223(f) program provides mortgage insurance for the refinance, acquisition or moderate renovation of existing assisted living and nursing facilities that are at least three years old.

#### **What Are the Benefits of the FHA 232(f) Pursuant to 223(f) Program?**

- Low, fixed interest rate.
- Loan is non-recourse.
- Up to 35-year loan term with 35-year amortization.

### **223(f) for Refinance of Section 202 Properties**

The 223(f) for Refinance of Section 202 Properties program provides mortgage insurance for the refinance, acquisition or moderate renovation of existing projects with Section 202 direct loans that are at least three years old.

#### **What Are the Benefits of the FHA 223(f) for Refinance of Section 202 Properties Program?**

- Low, fixed interest rate.
- Loan is non-recourse.
- Up to 35-year loan term with 35-year amortization.
- More flexible underwriting standards.

### **Important Factors Borrowers Should Consider When Selecting the FHA Loan Programs for the Refinance, Acquisition or Moderate Rehabilitation of Multifamily and Seniors/Healthcare Properties**

- **Loan Processing Time** –Application to closing generally takes 3 to 6 months for refinance or acquisition and 9 to 12 months for new construction or substantial rehab.
- **Prepayment Penalties** – The prepayment terms are negotiable, but they include an initial lockout period followed by a declining percentage penalty through year 10 of the permanent loan.
- **Underwriting Requirements** – Borrowers must submit a substantial amount of paperwork.
- **Rehabilitation Qualifications** – Repairs cannot exceed \$6,500 per unit (adjusted for local high cost factor), 15% of appraised value or replacement of two or more major building systems.

- **Restrictions on Cash Out** – No cash out is allowed for the 223(a)(7), 232 pursuant to 223(f) and 223(f) for the Refinance of Section 202 programs.

### **What are the Fees and Expenses Involved?**

- 1.) Lender Application Fee for third-party reports and underwriting costs.
- 2.) HUD Application Fee: Non-refundable fee of \$3 per \$1,000 (0.3%) of the mortgage amount due to HUD with the Firm Commitment submission package.
- 3.) FHA Mortgage Insurance Premium: HUD sets the cost of the FHA insurance. The MIP is paid in advance for the construction period and is escrowed monthly after amortization commences.
- 4.) FHA Inspection Fee: \$30 per unit when repairs are less than \$3,000 per unit. 0.5 % - 1 % of the cost of repairs otherwise.
- 5.) Origination / Commitment Fee: Negotiable.
- 6.) Legal/Closing Fees: Amounts vary by transaction type.

### **How Do I Get Started?**

- 1.) Call 1.800.ARBOR 10 to speak to an Arbor originator to discuss your options and select the lending program that is best suited to your financing needs. As an approved FHA Multifamily Accelerated Processing (MAP) lender, Arbor provides access to the flexibility of the FHA loan programs on an expedited basis.
- 2.) The borrower and the lender work together to prepare and submit preliminary project data, a market study and environmental report. HUD has 45 days to review and issue an invitation to Firm Commitment.
- 3.) Upon receiving a Firm Commitment, the borrower and lender will submit a Firm Commitment Application that includes all third-party reports, full project plans and specifications, general contractor's costs, a full credit review of the borrowing entity, principals and general contractor, description of the proposed property manager and business plan. HUD's review time is up to 45 days.
- 4.) The time from the Application Letter to closing is approximately 9 months.
- 5.) The borrower and lender may opt to combine both steps in this process and submit a single application to HUD for review. HUD's review time is up to 60 days, and the time from Application Letter to closing is approximately six (6) months.

### **About Us**

Arbor Commercial Funding, LLC, Arbor Commercial Mortgage, LLC, and Arbor Realty Trust, Inc., have extensive experience in mortgage origination, servicing and securitization and have built a reputation for service, quality and flexibility. Arbor's seasoned management team specializes in

debt and equity financing for multifamily, office, retail, hotel and various other commercial real estate properties. The company offers a broad array of financing options including Fannie Mae DUS<sup>®</sup>, FHA, CMBS, Bridge and Mezzanine products. Currently, Arbor services approximately \$6.1 billion in loans. Arbor is a rated Standard & Poor's third-party commercial loan and special servicer.

Arbor also manages Arbor Realty Trust, Inc., a real estate investment trust, (REIT), formed to invest in real estate-related bridge and mezzanine loans, preferred equity investments and in limited cases, discounted mortgage notes and other real estate related assets. Arbor is headquartered in Uniondale, NY, and has full-service lending offices throughout the United States.