

FHA SECTION 223(F) REFINANCE/ACQUISITION GUIDELINES

Purpose: Provides unsubsidized mortgage insurance to facilitate refinancing, acquisition, or moderate rehabilitation for existing apartment projects.

Program Terms and Conditions

Eligible Properties: Three years must have elapsed between the date of issuance of the last certificate of occupancy and the date of application to HUD. Commercial areas shall not exceed 20 percent of total net rentable area and commercial income shall not exceed 20 percent of estimated total gross income.

Interest Rate: The interest rate stated in the note will be fixed for the term of the loan. The interest rate is a function of the market for loans backed by FHA insurance and will be fixed at the date the loan is committed to by an investor.

Term of Loan: 35 years or 75% of the remaining economic life of the project, whichever is less.

Maximum Loan Refinancing:

The loan is the GREATER of:

- a) 100% of existing indebtedness plus transaction costs, initial deposit to replacement reserve and repairs (not to exceed 85% of value), or
- b) 80% of value.

Acquisition:

The loan is the LESSER of:

- a) 85% of purchase price and all costs, or
- b) 85% of value.

The loan is assumable subject to the regulations for a Transfer of Physical Assets (TPA). A fee of one half of one percent (.5%) is to accompany the TPA information package.

Commercial Income: Commercial income, vacancy and collection loss, operating expenses and replacement reserves attributable to commercial space must be calculated separately from the residential. A vacancy factor of not less than 10 percent must be used

Residential Income: In addition to rental income, other income may also be included based on the operating history of the project and whether income from these sources are common in the market. Examples are income from laundry facilities, parking, equipment rental, vending machines, pet fees, pool fees, cable fees and forfeited security deposit.

Personal Liability: The loan is non-recourse.

Prepayment: The loan is prepayable to the extent allowed based upon the prepayment language utilized when the loan is placed with an investor. Investors allow varying prepayment provisions and could require a prohibition on prepayment of up to ten years.

Standard prepayment provisions are as follows:

- a) 5% the first year declining by 1% each year thereafter
- b) 5 year lock-out, 5% the sixth year declining 1% each year thereafter
- c) 10 year lock-out, 0% thereafter.

The type of prepayment provision has a direct relationship to the interest rate required by the investor. The longer the prepayment prohibition, the lower the interest rate an investor will require.

Secondary Financing: Secondary financing, when added to the FHA Insured Mortgage, is allowed up to an amount not to exceed 92.5% of the Appraised Value of the Property. Surplus cash notes will be required. In the case of a not-for-profit, secondary financing, when added to the FHA Insured Mortgage, is allowed up to 100% of the Appraised Value of the Property.

Repairs:	Repairs may be included in the loan amount up to the greater of 15% of value or \$6,500 per unit times the area high cost ratio.
Escrows:	FHA requires cash escrows for the payment of taxes and insurance.
Replacement Reserves:	FHA requires a cash escrow for the replacement of short-lived items. The reserve escrow will be calculated based upon the estimated useful life of the items and an initial deposit will be required. An ongoing deposit is required in order to maintain a balance equal to at least \$150 per unit, per annum, for the term of the mortgage.

Fees and Costs

FHA Application Fees:	\$3.00 per \$1,000 (.3%) of the mortgage amount.
Financing Fee:	An amount not to exceed 2.0% of the loan amount and payable at closing.
Placement Fee:	An amount not to exceed 1.5% of the loan amount and payable at closing.
Commitment Deposit Fee:	When the loan is committed to be purchased by an investor, a one half of one percent (.5%) deposit fee is required by the investor. This fee is not a financeable cost. It is refundable only in the event the loan is purchased by the investor.
Mortgage Insurance Premium:	One percent (1%) for the first year (payable at closing) and forty-five hundredths of one percent (.45%) per year thereafter (payable in monthly installments).
MAP Processing Fee:	Payable at the time of formal application to P/RMIC. The amount covers the cost for an Appraisal report, Property Condition and Needs Assessment report, Lead-based Paint report (pre-1978 properties), and a Phase I Environmental report.

Funding:

Permanent financing is accomplished in the form of either 100% participation interest in the insured loan, a GNMA security, or Tax Exempt Bonds which are placed with institutional investors.

FHA Cash Requirements

For Closing:

The borrower will need cash or letters of credit at loan closing for the following items:

- a) Costs in excess of the FHA mortgage loan amount.
- b) Operating Deficit Escrow if determined to be needed by FHA.
- c) Required Repairs Escrow if determined to be needed by FHA
- d) Latent Defects Escrow equal to 2½% (or greater as warranted) of the repair cost maintained for 15 months from completion of repairs.