

BedfordLending

HUD vs Bank Comparison

	Bank	HUD	Comments
Loan to Value	70-75%	85-100%+	HUD's minimum leverage for apartments starts at 85% LTV. Properties with affordable tenants receive higher leverage, and credits can be combined with HUD to exceed 100% financing.
Amortization	25-30 Years	35-40 Years	Shorter term with the bank. HUD mortgage is fully amortizing.
Fixed Rate Term	For construction, banks typically will lock in a variable rate for 2 years to cover the construction period and fillup period, and then will lock-in the rate at the beginning of the 3rd year with a separate permanent loan. For just permanent loans (refis/acquisitions), banks typically offer 5-10 year fixed rate periods.	For construction, rate is locked-in at time of closing for 40 years, and there is only one closing. 40 year amortization begins after construction completion. It's construction/permanent all in one. For just permanent loans (refis/acquisitions), HUD's fixed rate term is 35 years (fully amortizing).	There is significant risk and cost associated with a bank loan because the interest rate has to be reset every 5-10 years and the borrower has to pay for a new appraisal and closing fees.
Interest Rate	Varies by Institution	Based off 10 Year Treasury	HUD rate typically lower than bank.
Note Modification	Generally does not allow.	Allowed	BLC can process an abbreviated loan modification which can reduce the interest rate.
Cash Out	Generally does not allow.	Allowed	Can recapture equity through cash out under our HUD refinance program - provides up to 80% LTV.
Collateral	First mortgage on subject	Only requires first mortgage on subject property.	HUD does not require any additional collateral beyond the subject property.
Borrower Strength	Varies by Institution	No minimum FICO, net worth, liquidity requirements. No prior HUD experience required.	HUD does not impose mandatory thresholds like Freddie Mac or Fannie Mae.
Assumable	No	Yes	A buyer can assume the HUD loan. This is extremely valuable to both the seller and buyer. The seller can maximize the sales price because a buyer will achieve higher cash flow with a long term, low fixed rate loan. HUD benefits long and short term investor scenarios.
Cash Flow	Lower with bank	Higher with HUD	Higher with HUD due to longer amortization, and generally lower interest rates.
Processing Time	2-4 Months	5-7 months for construction, 3-4 months for refis and acquisitions.	HUD financing does not take significantly longer to process than conventional financing. Bedford Lending handles all the paper work as the direct lender.
Affordability Restrictions	None	None	It is commonly assumed that HUD financing requires affordable rents/tenants (Section 8, etc). This is not true. Apartments can be 100% market rate.
Recourse	Yes	Non-Recourse	Bank will require principals to sign personally which is risky because lender will pursue principals personally in the event of default.