

# BedfordLending

## Statutory Limits for HUD 223(f) - Explained

The mortgage amount of a HUD loan is typically determined by the lowest of a few core calculations.

On a refinance transaction, these calculations are based on;

- The underwritten NOI (income), or;
- A percentage of transaction costs (LTC), or;
- A percentage of value (LTV)

For the income approach, we calculate an NOI based on HUD's underwriting criteria (vacancy factor, minimum DCR, etc) which then "backs into" a loan amount that can be supported by those metrics over a 35 year term at the proposed interest rate.

Estimated Net Earnings (from H-5)	\$ 422,113
85%	85.0%
Net Earnings Available for Debt Service	\$358,796
<b>Maximum Mortgage based on DSC</b>	<b>\$7,584,196</b>

As seen in the above example, the underwritten NOI of \$422,113 equates to a loan amount that can be supported (based on income) of \$7.58mm.

For the cost approach, we calculate all of the transaction costs, such as third parties, legal, finance fees, HUD fees, repairs, reserve deposits, etc, and add that sum to the existing loan payoff (if any) and then multiply that total by a percentage. See below for an example:

Development Costs (from J-1)	\$241,189
Existing Debt or Land Acquisition Cost (from J-2)	\$5,397,998
Mortgageable Costs	\$5,639,187
100% Limitation	100%
<b>Maximum Mortgage based on Eligible Costs</b>	<b>\$5,639,187</b>

← Third parties, HUD fees, repairs, etc

For the value approach, we use the appraiser's cap rate and value conclusions, however if the appraiser's rents and expenses are more "aggressive" or better performing than actual in-place project performance, we may use a more conservative NOI based on HUD's underwriting metrics divided by the appraiser's cap rate.

Estimated Value Per HUD:	Cap Rate	5.00%	\$8,442,261
85% Limitation / 80% if cash out			85.0%
<b>Maximum Mortgage based on LTV</b>			<b>\$7,175,922</b>

On a rate and term refinance, the mortgage would be determined by the lower of these three figures, or \$5.63mm. On a cash-out refinance, the "Cost" calculation (middle box) is not used, and so it would typically be limited by the "Value" calculation (last box), however the % would drop from 85% to 75-80%.

*Occasionally*, in high cost markets and/or metro areas, the “statutory limit” mortgage calculation is required by HUD in addition to those noted above. How this works, is HUD publishes “base” cost factors each year for its different loan programs, similar to a Fair Market Rent if you have experience with those.

See below for a chart of the 2020 HUD 223(f) base factors as an example:

Bedrooms	Non-elevator	Elevator
0 .....	\$54,892	\$64,026
1 .....	60,807	70,944
2 .....	72,633	86,990
3 .....	89,525	108,951
4+ .....	101,352	123,193

As seen, there are different base factors for an elevator and non-elevator building, due to the increase in costs typically required for an elevator building.

HUD also publishes a cost factor depending upon region, which accounts for increased costs in higher cost areas. As seen in the below example, a “lower cost” market like Shreveport, LA has a factor of 242%, whereas Kansas City, MO has a factor of 270%:

SOUTHWEST REGION	High Cost Percentage
<b>Ft. Worth TX (Southwest Regional Office)</b>	252%
Dallas TX	252%
Houston TX	247%
Lubbock TX	237%
San Antonio TX	224%
Little Rock AR	246%
Des Moines IA	270%
Topeka KS	266%
New Orleans LA	249%
Shreveport LA	242%
<b>Kansas City MO (Satellite Office)</b>	270%

Now let’s see how all of this ties together:

Per Unit Cost Limits - elevator	Base	# of Units	Total	
0 Bedrooms	\$ 64,026	0	\$ -	
1 Bedrooms	\$ 70,944	20	\$ 1,418,880	
2 Bedrooms	\$ 86,990	10	\$ 869,900	
3 Bedrooms	\$ 108,951	0	\$ -	
4 Bedrooms	\$ 123,193	0	\$ -	\$
	Total	30	\$ 2,288,780	
	Multiplier	NY	270%	
			\$ 6,179,706	
Site value		100%	\$ 750,000	Estimate
Site Not Attributable to Dwelling Use			\$ -	n/a
Parking Spaces				n/a
Maximum Mortgage based on Statutory Limits			\$ 6,929,706	

As seen above, we take the base factors published each year and multiply this by the unit mix of the project. For example, if a project had 100 one bedrooms and no other unit types, the “1 Bedrooms” row which currently has “20” units listed would show “100”, and the others would show “0”.

Once we have multiplied the base factors by the unit count, we then multiply that sum by the cost factor noted above. In this example, the project is located in a part of NY which would qualify for a “270%” multiplier.

In some edge case scenarios, HUD may allow the 270% figure to be multiplied by a special higher factor (up to 315%), however this cannot be used for cash-out purposes and it is very limited; a waiver must be applied for and HUD will approve on a case-by-case basis.

We then add the appraised **land** value on to this sum to arrive at the mortgage amount based on Statutory Limits.

In 9 out of 10 transactions, this mortgage amount calculation is never used, instead it comes down to income vs cost vs value as seen on the first page. Only projects in areas in or surrounding metro/high cost markets will bump into this, but it’s important to consider early on, as it can be very limiting in some scenarios.