BedfordLending

HUD 223(f) Apartment Refinance & Acquisition Program

www.bedfordlending.com

What is Bedford Lending's role?

We are a direct lender, **not** a broker. We are one of approximately 25 companies that actively provides HUD multifamily financing throughout the country.

Headquartered in Londonderry, NH, family owned since 1991.

Maintains HUD highest designations –MAP and LEAN Approved.

We do not get paid unless a transaction closes.

We only provide HUD financing which enables us to have a deep knowledge of the programs, versus larger companies that do not have a singular focus.

HUD Facts vs Fiction

- A common myth is that a multifamily property must offer reduced rents or subsidies to qualify for HUD financing. This is not accurate. Properties can be 100% market rate, 100% subsidized (Section 8 Vouchers and HAP Contracts), 100% rent restricted (LIHTC) or *any* combination thereof. There are no minimum affordable set-asides or rent caps required to use the program.

- Another myth is that the process is arduous and takes a year to close. The HUD 223(f) program is a “single stage” process. We draft a preliminary overview to HUD, if they approve, we commission third parties, once third parties are complete, we finalize our underwriting package and send to HUD, and then close. The 223(f) program generally takes no more than 4-6 months.

Borrower Experience Requirements

- At least one principal on the ownership team must have positive experience and qualifications in developing, owning or building multifamily properties reasonably comparable in kind and scale to the subject of the proposed transaction. Comparable in kind and scale means: (a) similar in physical size (e.g. number of units) and building type and uses (e.g. low rise, high rise, commercial spaces); (b) similar financially (e.g. revenues, expenses, size of mortgage, required liquidity); (c) similar operationally (e.g. target markets/tenant population, elderly, subsidized or affordable); and (d) similar in kind of transaction purpose (e.g. acquisition, re-positioning/turn-around, rehabilitation, new construction).
- Related experience in single family development or in development of commercial properties is generally not an acceptable substitute for the required prior multifamily experience and may not be a basis for a waiver of the experience requirement. An experienced Management Agent generally will not be considered as an adequate mitigant for an inexperienced Principal or Borrower.

HUD Refinance and Acquisition (223f) Overview

What is the difference between a HUD 223(f) loan and a HUD 221(d)(4) loan?

Refinance & Acquisition = 223(f)

- The 223(f) program is permanent financing only.
- Projects that have been in operation for more than a year or two should have maintained average occupancy of 90%+ for the past six months and should generally show strong historical occupancy trendlines.
- Projects that are coming out of lease-up (recently constructed/renovated projects) must achieve 90% occupancy before the 223(f) application can be submitted and should show proof of strong demand (quick absorption).
- The 223(f) program can fund repairs identified by a capital needs assessment that will be commissioned at time of underwriting, but the total repairs should be less than $45,000 per unit.

New Construction & Substantial Rehabilitation = 221(d)(4)

- If an existing building requires more than ~$45,000 per unit in repairs and/or cannot maintain stabilized occupancy, it must be processed as a 221(d)(4).

Eligible Repairs (223f)

- There is no minimum repair amount required to utilize the program.

- At time of underwriting, a capital needs assessment will be commissioned which will determine what repairs, if any, should be included in the loan. All repairs are mortgageable, and any necessary deposit to a replacement reserve account to fund future improvements is also drawn from mortgage proceeds and ongoing operating expenses post-closing.

- HUD repairs are classified in two ways; “critical” and “non-critical”. A “critical” repair is a life safety issue that must be completed prior to closing, but the cost will be reimbursed / credited at closing. A “non-critical” repair is any repair that can be completed within a year post-closing which will be funded through an escrow established at closing.

223(f) Benefits

Features	
Borrower Types	For-Profit and Non-Profit. Sponsors must form a single asset entity for HUD financing, but members/partners/owners of this entity can be in any configuration.
Maximum Loan Term	35 Years
Fixed Rate Period / Prepayment Penalty	35 Years. No balloons. 10 year declining penalty (starts at 10%, declines by 1% per year, none after 10 years). Benefits short term and long-term investors versus defeasance or yield maintenance prepayment structures.
LTV / DCR	87% for market rate, up to 90% for affordable. DCR is 1.15x for market rate, down to 1.11x for affordable.
Cash Out	Yes, for refinances up to 80% LTV.
Seller Second Mortgage	Allowed up to 92.5% combined loan to value if it's a private secondary note or can meet or exceed 100% if from a "public" source.
Assumable	Yes
Tenant Types	All ages or elderly restricted. Elderly restricted = 62+. 55+ not allowed except for certain grandfathered scenarios.
Recourse	Non-recourse from day one.
Commercial Space	A portion (typically no more than 20% of building area or 15% of income) is allowable. We can include commercial income in underwriting to provide a larger mortgage amount however it will be underwritten conservatively.

Cash-Out Rules

- HUD provides 87-90% LTV loan for rate-and-term refinances (87% for market rate, 90% for affordable), which decreases to 80% for cash-out refinances regardless of affordability.

- At closing, if there are any repairs identified as “non-critical” (see earlier slide), 50% of the total cash-out proceeds will be withheld in escrow until the borrower provides proof that all identified non-critical repairs have been completed. If the cash-out proceeds that will be held exceed $1,000,000, the proceeds above $1,000,000 can be requested as part of the initial takeout subject to HUD approval.

- There are no other restrictions on an equity take-out. The cash-out provided can be used for any purpose.

What happens if rates drop after I lock in for 35 years?

HUD's long term fixed rate benefits protect borrowers in times of interest rate volatility, however when rates are rising, some borrowers wonder if it's "worth" locking into HUD at a higher rate versus waiting to see if market conditions cool.

For borrowers with an existing HUD loan, there are two streamlined processes to drop the interest rate post-closing.

1. Note Modification. Keep current term, loan amount, the only thing that changes is the rate lowers and the prepayment penalty resets. Quick, simple process.

2. 223(a)(7). This is a streamlined refinance process that allows borrowers to re-amortize their initial loan by up to 12 years beyond the original maturity date. Can also fund $1,500 per unit in repairs. Like a note modification, the prepayment penalty will reset.

- No cash out available in either program, and both would be subject to the prepayment penalty outstanding (if any) on the existing loan, however that can be capitalized into the note modification or 223(a)(7) proceeds.

Eligible Property Types

Property Category	
Eligible Properties	▪ Garden-style Apartments ▪ Four/five-plexes (townhomes, etc.) ▪ Elevator/non-elevator Buildings ▪ Scattered sites located across multiple areas (if considered one marketable entity) ▪ Renovations (mills, historic buildings, etc.) ▪ Row homes ▪ High Rises, Low Rises All projects must contain at least five units to be eligible.
Ineligible Properties	▪ Dedicated Student Housing ▪ Residential Subdivisions – at least 50% of the *buildings* on a site should contain at least 4-5 units, which can include attached townhomes. HUD generally does not like single family structures. ▪ Condominiums (project can be individually metered with condo regime in place; however, individual units cannot be sold with HUD mortgage is in place) ▪ Mobile Homes ▪ Transitional Housing / Drug Rehab / Medical

Mortgage Insurance Premium

- Mortgage Insurance Premium ("MIP") is required for HUD loans. This is a portion of the interest rate that flows to HUD; in return for this insurance premium, HUD guarantees the loan which enables the loans to be high leverage and non-recourse with below market interest rates. The MIP is applicable regardless of overall loan leverage or borrower strength.
- In 2025, HUD changed what were previously varying MIP amounts per property type to one fixed MIP amount of 0.25% for every scenario:

Type of Project	MIP Amount
Market Rate	0.25%
Market Rate (Energy Efficient)	0.25%
Affordable Housing	0.25%
Broadly Affordable Housing	0.25%

- The effective MIP over the life of the loan is typically just ~13 basis points or so, as the MIP portion of debt service payments declines as the principal balance of the loan amortizes.

HUD Fees

HUD charges three fees as part of a HUD 223(f) loan. Of the three, only one is paid prior to closing (during underwriting) and is listed below. This fee is credited back to the borrower on the settlement statement.

Fee Name	Description	Cost
HUD Exam (Application) Fee	Covers HUD's review of our formal underwriting submission. This is only paid after third party reports are received, etc. It's not paid "up front" or to start the process. Bedford Lending receives no portion of this fee.	0.30% of the mortgage amount. The 223(f) underwriting process is typically completed in two stages. The first stage is a quick "screening" of the transaction by all parties (including HUD) at no cost. This is not necessary for projects with a history of stabilized occupancy and/or experienced borrowers. After an initial screening (if applicable), an appraisal, capital needs assessment, and Phase I environmental report will be commissioned by us (the lender) to determine if preliminary underwritten assumptions can be supported. Assuming all third-party conclusions support the project, the loan application will be submitted to HUD, and HUD will charge the above fee to review the application to issue an approval to close. This amount can be reduced to 0.20% if the property is in an Opportunity Zone and further reduced to 0.10% if the property is both in an Opportunity Zone and contains a Section 8 HAP contract tied to the property that covers more than 90% of the rental units.

HUD Fees (con't)

HUD charges three fees as part of a HUD 223(f) loan. Of the three, two are collected at closing and are listed below. These fees are drawn from mortgage proceeds.

Fee Name	Description	Cost
HUD Mortgage Insurance Premium ("Mtg Ins Pre.")	"Mortgage Insurance Premium" is collected both at closing and as part of debt service payments on an ongoing basis. Bedford Lending receives no portion of this fee.	0.25% of the mortgage amount. This payment covers HUD's Mortgage Insurance Premium and is capitalized in the loan versus paid out of pocket and only collected at closing. This insurance premium flows into a pool of funds which can be used in the event of project default. There is no avoiding this Mortgage Insurance Premium; it enables the 223(f) program to exist.
HUD Inspection Fee	Covers HUD's inspection of completed repairs identified during underwriting and included as a mortgageable cost in the loan. Bedford Lending receives no portion of this fee.	$30 per unit where the repairs/improvements are greater than $100,000 in total but $3,000 or less per unit. The greater of $30 per unit or 1% of the cost of repairs or $1,500, where the repairs/improvements are more than $3,000 per unit. $1,500 where the total repairs/improvements are less than $100,000, which may be decreased or waived in some scenarios. It is capitalized in the loan versus paid out of pocket and only collected at closing.

Loan Fees (estimate)

- In summation, HUD will charge 0.30% of the loan amount prior to closing, with an additional ~0.25% drawn at closing (~0.55% total). This amount can change slightly depending upon the anticipated repairs funded by the loan (see previous page).

- Our (Bedford Lending) fee varies depending upon project complexity and size, as it is the same amount of work for us regardless of loan size. Generally, our fee is ~0.50%-1.50% payable at closing (from mortgage proceeds).

- Other notable soft costs include lender and borrower legal. We do not receive any portion of lender legal fees, however because of the length and documentation of a HUD loan, there are higher legal fees associated with closing. An approximate estimate would be ~$22,500 for lender legal, and approximately ~$15,500 for borrower legal. These fees are subject to independent counsel's invoice and are mortgageable.

- Third party costs are generally $25,000 in total (appraisal, capital needs assessment, Phase I environmental, etc.). This amount varies by project type, size and complexity and is mortgageable. Older projects with lead paint, asbestos, or other environmental concerns may be subject to additional costs.

- The above explains why the HUD 223(f) program is not economical for very small loan sizes, because some costs are relatively "fixed" which are hard to absorb without economies of scale. Projects with estimated loan sizes below $1,500,000 may be better served by local lenders or Fannie Mae/Freddie Mac's small balance programs.

Commercial Space/Income Limits

- HUD allows commercial income to be recognized in underwriting and the income can be used to increase loan proceeds. HUD will look at commercial revenue conservatively; they do not want to be in a position where there is substantial commercial space anticipated that ultimately does not lease up, and then the project cannot support its debt service with just residential (non-commercial) income.

Commercial Space Square Footage Limit (as a % of total net rentable area)	25%
Commercial Income Limit (as a % of total effective gross income)	20%
Underwritten Commercial Income Vacancy Factor *(could be larger if market shows weak demand)*	10%

Market Tiers

- Unlike Fannie Mae, Freddie Mac, or banks, HUD does not “tier” the leverage of the loans based on market. A borrower in a rural area qualifies for the same financing as a borrower in an urban area.
- Similarly, interest rates are not impacted by location.

Potential Equity Sources that can be combined with HUD multifamily programs

- Low Income Housing Tax Credits (“LIHTC”)*
- Tax Abatements/PILOTs
- Public/private grants
- AHP Funds
- HOME Funds

HUD is open to virtually any grant source / capital stack item that can be secured by ownership if the terms are compliant with HUD regulations.

*Please note the LIHTC program will have the same experience requirements as HUD and is not a simple process. This is only recommended for seasoned multifamily developers.

HUD's Appraisal Methodology

- HUD appraisals are no different from any conventional real estate appraisal, however because the loans are long term and non-recourse, the reports are more detailed.
- The rents, expenses and value we use in underwriting will be compared with an appraiser's findings to ensure they are reasonable.
- The appraiser analyzes a property's historical performance, competition, and general market conditions for their conclusions.
- The income and sales approach will be completed for all properties, while the cost approach is generally excluded for any assets over 10 years old. Direct Capitalization is typically used but Band of Investment can also be considered.
- There is no "Master List" of approved HUD appraisers or other vendors. If you have a positive experience working with a local or national group, we can use their services for an appraisal if they are comfortable with HUD requirements.

223(f) Considerations

Before securing a HUD 223(f) loan, borrowers should consider the following:

1) Loan sizes below $1,500,000 generally are not economical due to the soft costs and timing involved.
2) If a property is presently managed by a “mom and pop” management agent, that entity may require HUD training as part of the approval process, or a more experienced management agent may need to be brought in post-closing.
3) If a property has tenant at wills or month-to-month tenants, it will be very challenging to qualify. HUD wants most (if not all) tenants to have year-long, standard leases in place.
4) Properties that have mixed levels of completion/building condition will be challenging to qualify. HUD does not want a building to be stabilized and occupied, but half the building is tired/pending improvements, and the other half is in exceptional shape. Building condition should generally be of the same fit and finish throughout.
5) Due to the underwriting timing involved, in an acquisition scenario, sometimes borrowers elect to acquire a property without HUD and then refinance with HUD after acquisition. This way a cash-out can be done to recapitalize ownership after the purchase and there are no timing constraints imposed by the seller.
6) We cannot underwrite on pro-forma or “hypothetical” rent increases or expense reductions unless there is a very strong justification for these changes.
7) Borrowers will be required to sign the “HUD-92466M Multifamily Regulatory Agreement” at time of closing. We recommend reviewing this document early on. An annual audit on the subject property will be required.

FAQs

- *Can I receive credit for pre-paid expenses?*

Yes. Monies spent prior to closing on third party reports, repairs, etc. can be reimbursed to you or credited towards any cash due at closing. These are all “mortgageable costs”.

- *Do I need architectural plans for repairs completed as part of a 223(f) loan?*

Generally, no unless you are completing significant repairs (~$15k+ per unit) or making modifications that will change walls, layouts, etc. of units.

- *Can I receive a Developer’s Fee?*

Only if you are a non-profit borrower or utilizing LIHTC and or have Rental Assistance Demonstration (“RAD”) involvement.

- *What type of credit requirements are there for principals?*

HUD does not have any fixed net worth, liquidity, or FICO minimums, however a strong, stable track record for any entities and principals with 25%+ ownership in a project is required. HUD takes a common-sense approach; whether you’re looking to secure financing for a $2mm, $5mm, or $50mm project, HUD wants at least one person on the team who has the general financial strength to support such a project.

- *Is a ground lease eligible?*

Yes. We can provide more detail on the rules a ground lease must abide by.

How do I get started?

We need only a few items to see if your project qualifies for HUD financing:

- Past three years historical property financials and interim statement. For properties with limited financial history (such as a new construction take-out), please provide as much financial information as possible including an interim statement and stabilized projections.
- Balance of current loan (including any applicable prepayment penalty).
- Any regulatory agreements and estimated repairs, as applicable.

Any other supporting information you can provide about the market, reserve balances, or project is helpful. We pride ourselves on our quick, accurate, and free HUD pre-qualifications.

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