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The Reemergence of HUD Financing

In the early 1980s, when the prime interest rate was in the 20% range, developers found it extremely difficult to find affordable financing for their projects. At that time, one attractive alternative was to use HUD financing that was coupled with the sale of Ginnie Mae backed securities.

Over the years, HUD financing lost its popularity and was largely replaced by conduit financing. In some respects, the HUD programs used in the early '80s were similar to the conduit financing that gained great popularity in the latter part of the 1990s. For example, while HUD insured financing used the sale of Ginnie Mae bonds to raise funds, conduits also used the sale of bonds to raise capital.

Now that the conduit market has dried up, we are seeing the reemergence of HUD financing, and the available products can be very good ones for developers and owners of multifamily residential housing.

Two products that developers may want to consider for multifamily residential properties are the 221(d)(4) program and the 223(f) program. Under the (d)(4) program, HUD insured financing can be used to finance the construction or rehabilitation of detached, semidetached, row, walk up or elevator type rental or cooperative housing containing five or more units. Developers can receive financing of 90% of the HUD/FHA replacement cost estimate, which is generally far more than is currently otherwise available in the market. An attractive feature of the (d)(4) program is found in the Builder's Sponsors Profit and Risk Allowance (BSPRA). For new construction, the BSPRA is 10% of the approved development costs, exclusive of the cost of land. In effect, the BSPRA provides a source for the developer's equity. Long term mortgages of up to 40 years with no personal recourse are available and the loan is assumable subject to HUD's transfer of physical asset (TPA) program. No rent or income restrictions are applicable.

The 223(f) program provides for refinancing of multifamily residential projects consisting of five or more dwelling units. The project must be stabilized such that it produces rental income sufficient to pay operating expenses, debt service and can maintain a reserve fund for replacement. The project must also have been completed for at least three years prior to the application for mortgage insurance and must not have been substantially rehabilitated during that three year period.

Under the 223(f) program, owners can obtain loans of up to 85% of the value of the property with self amortizing 35 year nonrecourse promissory notes. The

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https://www.reinhartlaw.com/people/harvey-temkin loans are assumable, but such assumption is again subject to HUD's TPA program.

Both the 221(d)(4) and the 223(f) programs can provide great loans for developers and owners of multifamily housing. We have recently closed loans using these programs that allowed developers to obtain sub 5% long term interest rates. Admittedly, the HUD loan process is not the easiest. In addition, reserve replacements are required and capital improvements may be required before loan funding. In addition, distributions are limited to two times per year. Notwithstanding these restrictions, and certainly for those developers and investors who have financed using conduit financing, they will not find the HUD process any more onerous.

We believe that the HUD programs offer a unique opportunity for developers and owners of multifamily residential properties. We would be happy to discuss whether your project may qualify. Please feel free to call or email me or any of the other gurus and we can help determine whether your project might qualify for these very attractive programs.