

# FHA Mortgage Insurance Programs

## Commonly Asked Questions

### FHA's Multifamily Mortgage Insurance Programs For Apartments Section 221(d), Section 231, and Section 223(f)

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#### **ARE THE FHA MORTGAGE INSURANCE PROGRAMS LIMITED TO SUBSIDIZED HOUSING?**

#### **DO THEY RESTRICT A PROPERTY TO LOW INCOME TENANTS OR CONTROL RENTS?**

FHA mortgage insurance programs are not restricted to low income tenants nor do they control rents charged. The programs, as part of the National Housing Act, were designed to provide financing for new construction or substantial rehabilitation of multifamily projects, in the case of Section 221(d)(3), 221(d)(4) and 231 insurance. Under the Section 231 program, all project residents can be limited to 62 years and older. The Section 223(f) insurance program was created to assure the availability of mortgage capital for the acquisition or refinance of existing multifamily properties. All of these programs involve market rate consideration in underwriting unless they are restricted by requirements associated with other funding sources.

#### **WHAT MATURITIES ARE AVAILABLE?**

Maturities of 35 years or less for Section 223(f) and 40 years or less for Section 221(d) are permissible, however, all debt must be amortized within the term of the loan. Shorter amortization periods increase annual debt service requirements, which decrease the amount a property can borrow based on debt service coverage.

#### **ARE FHA INSURED LOANS ASSUMABLE?**

FHA insured loans are assumable through a Transfer of Physical Assets process with HUD, provided the new owner and its principals are acceptable to HUD (0.05% of the original loan amount due at application submittal).

#### **WHAT IS THE UNDERWRITING INTEREST RATE AND WHEN IS THE FINAL RATE FIXED?**

Interest rates usually are not fixed prior to the issuance of a HUD firm commitment. In order to reduce the possibility that rising interest rates might hinder proceeding under a HUD firm commitment, **RED Mortgage Capital, LLC** will submit the application to HUD at a rate slightly higher than the anticipated final rate. Rates typically will be fixed following the issuance of the firm commitment and after the requirements for rate lock have been met.

#### **WHAT DEBT SERVICE COVERAGE IS TYPICAL FOR APPROVED TRANSACTIONS?**

Refinance or acquisition transactions will require a minimum debt service coverage, including a deposit to the replacement reserve, ranging from 1.11x to 1.20x. New construction and substantial rehabilitation transactions will require a minimum debt service coverage, including a deposit to replacement reserve, ranging from 1.11x to 1.20x.

#### **ARE THERE INCOME LIMITATIONS?**

FHA mortgage insurance programs do not dictate income limitations. The borrower, however, must certify to abide by Fair Housing practices.

#### **HOW LONG DOES IT TAKE?**

With the implementation by FHA of its Multifamily Accelerated Processing (MAP) and LEAN programs, processing time has been reduced. Please see our program specific term sheets for additional information.

#### **DOES HUD REQUIRE AN OPERATING DEFICIT ESCROW?**

For new construction and substantial rehabilitation projects, an operating deficit escrow is dependent upon underwritten rent-up assumptions or program based minimums. In the case of refinance, acquisition or substantial rehabilitation (when significant tenant displacement does not occur), an operating deficit escrow is not required.

#### **WHAT OWNERSHIP STRUCTURE IS REQUIRED?**

FHA requires that the borrower (or borrowing entity) be a single asset mortgagor. Often, the owning entity is structured as Limited Liability Companies (LLC).

#### **ARE THERE FINANCIAL REPORTING REQUIREMENTS?**

FHA will require audited HUD financial statements submitted in an electronic format on an annual basis.

**WHAT LEVEL OF ENVIRONMENTAL INVESTIGATION IS REQUIRED?**

HUD requires a phase I environmental review which includes lead based paint and asbestos reports if the property was

constructed prior to 1978. In addition, new properties cannot be located in a 100 year flood plain (500 year for healthcare), in airport landing paths, located near oil or chemical holding tanks, etc.

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For additional information visit [www.redcapitalgroup.com](http://www.redcapitalgroup.com) or contact:

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RED Mortgage Capital, LLC is a leading FHA-approved Mortgagee and MAP/LEAN lender and actively provides financing utilizing FHA insurance programs nationwide pursuant to Multifamily Accelerated Processing (MAP) and LEAN underwriting methods.

In its prequalifying review, RED Mortgage Capital, LLC will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.