FHA Mortgage Insurance Programs
Commonly Asked Questions

FHA's Multifamily Mortgage Insurance Programs
Section 221(d) and Section 223(f)

Are the FHA Mortgage Insurance programs subsidized housing?
Do they restrict a project 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 substantially rehabilitated multifamily projects, in the case of FHA Section 221(d)(3) and 221(d)(4) insurance. The FHA Section 223(f) insurance program was created to assure the availability of mortgage capital for the acquisition or refinance of existing multifamily projects. All of these programs involve market rate consideration in underwriting unless they are restricted by requirements associated with other funding sources.

Are shorter maturities possible?
Maturities of 35 years or less for 223(f) and 40 years or less for 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 project can borrow based on debt service coverage.

Are FHA insured loans assumable?
FHA insured loans are assumable through a Transfer of Physical Assets process at HUD, provided the new owner and its principals are acceptable to HUD.

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 commitment; however, the rate cannot exceed the rate stated in the HUD commitment. In order to reduce the possibility that rising interest rates might hinder proceeding under a HUD 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 commitment and after the requirements for rate lock have been met.

What debt service coverage is typical for approved transactions?
On refinance or acquisition transactions, a minimum debt service coverage, including a deposit to the replacement reserve, of 1.17X is required. New construction and substantially rehabilitated projects will require a minimum debt service coverage of 1.11X.

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 drastically reduced. Please see our program specific term sheets for additional information.

Does HUD require operating deficit Letters of Credit?
For new construction and substantial rehabilitation projects, the requirement for operating deficit LOCs is dependent upon underwritten rent-up assumptions. Typically, in the case of refinance, acquisition or substantial rehabilitation (when significant tenant displacement does not occur), an operating deficit LOC is not required.

What ownership structure is required?
Except in those rare instances where an individual is the borrower, FHA requires that the borrower (or borrowing entity) be a single asset mortgagor. Often, the owning entity is structured as a Limited Partnership with a 1% corporate General Partner and 99% Limited Partners.

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 performs an in-house environmental review and typically requires lead based paint and asbestos reports if the project was constructed prior to 1978. In addition, new projects cannot be located in a 100 year flood plain (with very few exceptions), in airport landing paths, located near oil or chemical holding tanks, etc.

For additional information visit 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.

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