

Context: I researched and wrote this article for JHP Architecture, a firm specializing in multi-family housing. I researched everything myself and collaborated with their team to make sure the facts were correct.

The Department of Housing and Urban Development's (HUD) Section 223(f) loan is becoming an increasingly popular option for owners of multi-family housing. The program provides FHA insurance for HUD-approved lenders and has benefits over a conventional mortgage. A 223(f) loan can have longer terms, lower interest rates, and government protection.

In order to be eligible for a 223(f) loan, a property has to meet the following requirements.

The property must be at least three years old (pre-COVID)

Traditionally, to qualify for the 223(f) loan, a property had to be at least three years post-construction. In the case of existing construction, the property needed to be at least three years past a "substantial rehabilitation." However, in the face of COVID-19, HUD has waived the requirement of properties to be 3 years post-construction or post substantial rehabilitation.

HUD considers substantial renovation to have occurred under one of the following circumstances:

- Required repairs, replacements, and improvements involve the replacement of two or more major building components.
- The costs of rehabilitation exceed greater than 15% of the property's replacement costs after completion of all required repairs, replacements, and improvements, or \$6500 per dwelling unit.

For more on HUD's response to COVID-19, keep reading.

Meet the minimum Debt Service Coverage Ratio

To be approved for a 223(f) loan, a property owner needs to meet the requirements for Debt Service Coverage Ratios (DSCR). This requirement varies depending on the categorization of the property. For example, the 223(f) loan requires a DSCR of 1.18 on a market-rate property, 1.15 on a HUD-designated "affordable" property, and 1.11 on a rental assisted property.

Replacement Reserves must be funded monthly

Like most other types of HUD loans, 223(f) loans require monthly payments for replacement reserves. These reserves are for significant maintenance like roof replacement, HVAC replacement, or other major maintenance. However, the replacement reserves can't be used for minor everyday repairs.

In addition to the requirements listed above, the property owner needs to perform a yearly audit.

What are the benefits of the 223(f) program?

To many property owners, purchasing or refinancing with a Section 223(f) loan can provide attractive benefits over a traditional mortgage. First, a 223(f) loan can offer lower interest rates

than a conventional mortgage. Since the 223(f) loan is insured by Ginnie Mae, lenders are able to offer borrowers lower interest rates.

In addition to the lower interest rate, a 223(f) loan allows for a longer-term loan and longer amortization. While a traditional loan may allow up to 30 years, a 223(f) loan can range from a minimum period of 10 years, up to 35 years or 75% of a property's remaining economic life. During the loan period, terms and amortization are fixed.

Changes to the 223(f) Program in Response to COVID-19

In the face of COVID-19 and the continued housing crisis, HUD made several changes to the 223(f) program.

In March 2020, HUD lifted the requirement for a property to be three years old or three years past any substantial renovation. In place of the waiting period, HUD will accept applications for refinancing on newly built or substantially renovated properties as soon as they achieve the Debt Service Coverage Ratio that is required for each project.

In addition to meeting the DSCR requirements, a 223(f) application needs to meet other requirements.

- Applicants must provide an income and expense statement from initial occupancy to application submission, and a projection for income and expenses for the following year.
- A current rent roll that shows achieved rents
- Leading history of the project from initial occupancy to application submission
- Rent concessions, other discounts, and sub-12-month leases that are offered to induce a prospective tenant must be disclosed

Although these new requirements and refinancing a property with a 223(f) loan can be intimidating, the benefits of a 223(f) loan are hard for a property owner to ignore. To read more on requirements that you should account for with your 223(f) project, download our HUD Architectural Design Checklist [here](#). You can use this checklist to make sure your property has the best chance of getting approved for your 223(f) program.

Having the right team is critical to the success of any project that involves HUD. JHP Architecture has years of experience working with HUD and their requirements, and have learned what it takes to make any HUD project a success. Contact us if you have any questions or are ready to work together on your next HUD project.