

# Refinancing Cooperative Housing Projects

## HUD FHA 223(f) loans

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**Citi Community Capital**



# Federal Housing Administration (FHA)

- FHA finances multifamily housing of all types: Must be good real estate in good condition that is responsibly managed.
- HUD insures loans against default:
  - AAA Credit enhanced loan has high value on mortgage market
  - Very generous loan terms
    - Fixed interest rate
    - 35 year financing
    - Non-recourse to the borrower
  - Uses HUD approved lenders, such as Citibank, to make the loan
- HUD currently has more than 47,000 multifamily properties
  - Approximately 14,000 are multifamily projects

# Why The Excitement?



# HUD financing for Coops

223(f) Refinance – Can refi to pay-off existing debt, make repairs and improvements and pay for loan closing costs, all without changing the Coop status of the property.

Only existing Non-Profit Coops – no new construction or conversion properties

Existing age restrictions may carry forward

\*\* Better than depleting project reserves and mandating special assessments

# Threshold Requirements:

- 1. Rent Roll – including name, whether owner occupied, ownership percentage, monthly carrying charge, special assessments, and *past due balances of 30 days or more*;
- 2. Financial Statements for the Past Three Years – review for history of outstanding accounts payable tied to maintenance and for special assessments
  - \* Total outstanding accounts payable for maintenance and special assessment charges must not exceed 5% of gross annual income
  - Example: If gross income is \$1,000,000 then outstanding accounts payable cannot exceed \$50,000.

Projects with a history of vacancies, or shareholders not paying carrying charges or other co-op obligations are not eligible for the program.

## Other financing considerations:

- OWNER OCCUPANCY – 75% owner occupied and no leases of <90 days
- Strong markets that accept co-op housing; vacancy rate of <5%
- Carrying charges are able to keep the property well maintained
  - Can increase by 5% as part of new financing
- Cannot finance more than \$6,500 per unit in repairs; increasing to \$40,000 in 2016
- Affirmative marketing plan - Fair Housing rules apply
- Meets (or will meet) accessibility requirements if built after March 13, 1991
- Senior properties – at least 1 member over the age of 62 at initial occupancy
- No mandatory meal service
- Up to 20% of the space can be commercial, including parking
- Ground leases are okay

# Reserve Requirements:

- General Operating Reserves (GOR) formula –
- 3% of the monthly carrying charges until reserve is 15% of annual carrying charges; then
- 2% of the monthly carrying charges until reserve is 25% of annual carrying charges; then
- Suspended unless amount goes below 25%, then resume 2%-3% deposit
- HUD may require 15% deposit to GOR as part of the financing

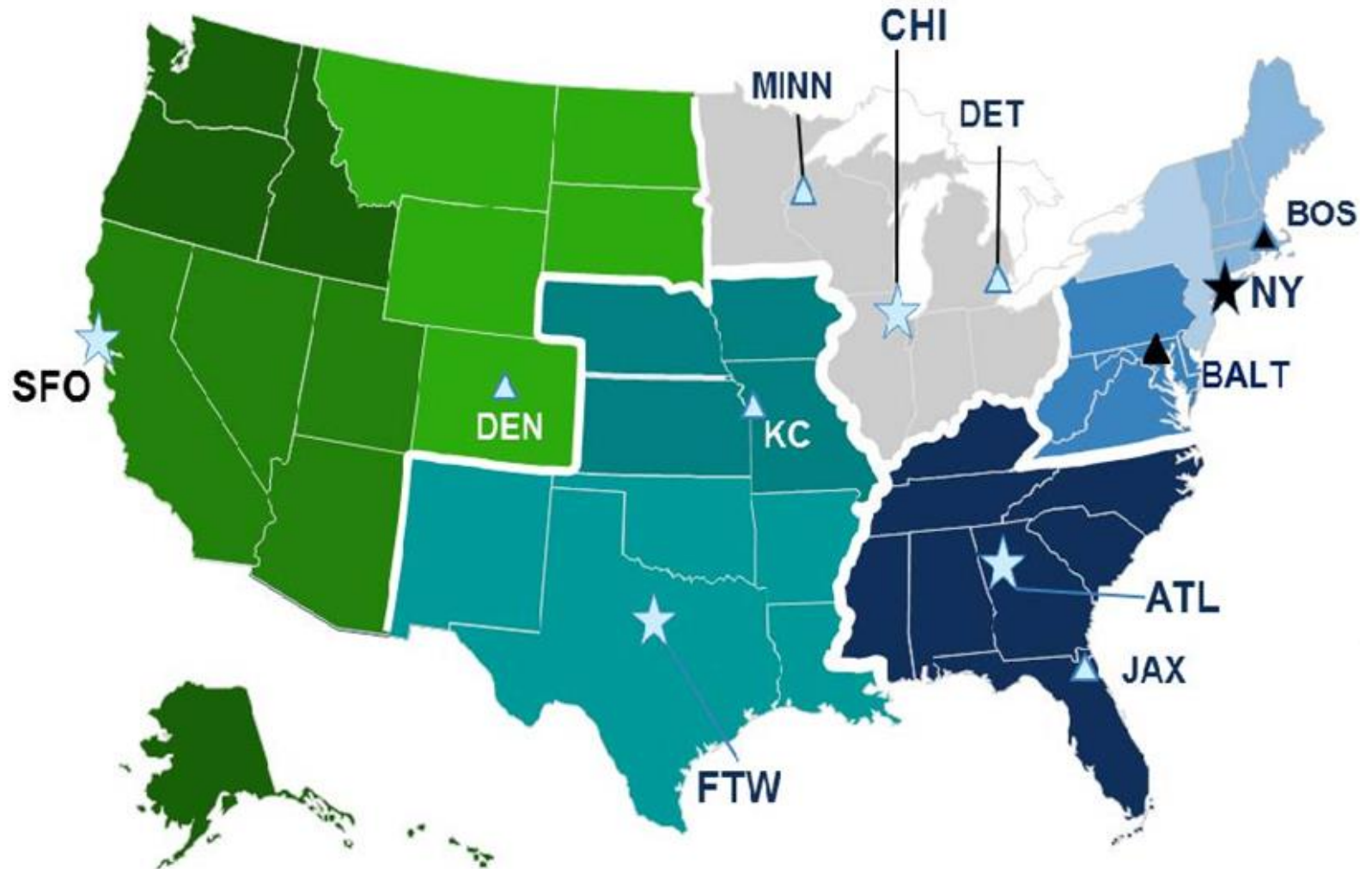
Are we having fun yet???

## Owner Documents:

- Original project design information, if possible
- Resolution of the BOD and Shareholders giving approval to enter into the financing
- Adoption of HUD's Model By-Laws
- Minutes of the last 6 BOD meetings
- Must agree to use HUD form of Occupancy Agreement and Model Form of Sublease

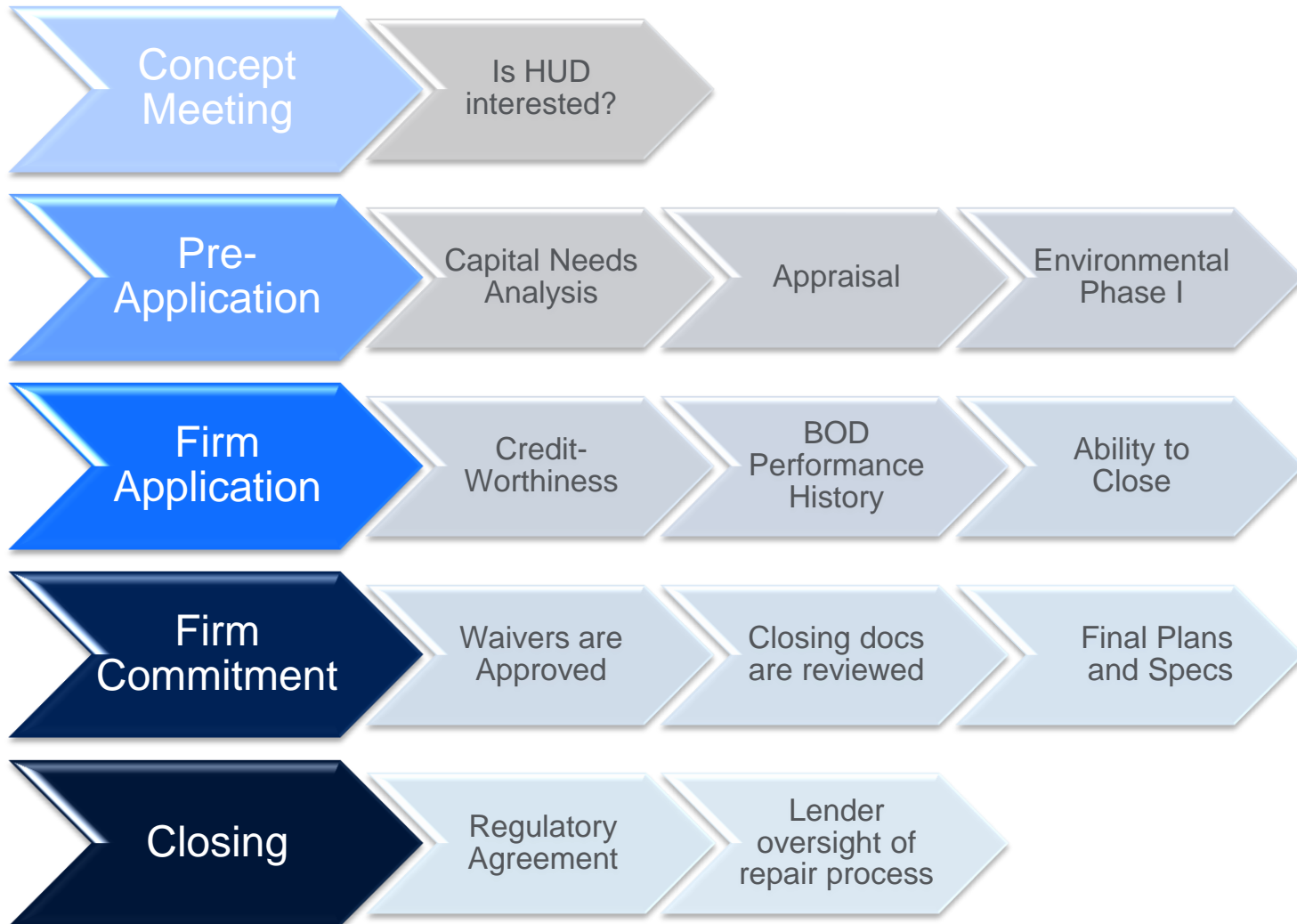


# Multifamily office consolidation to be completed by 2016



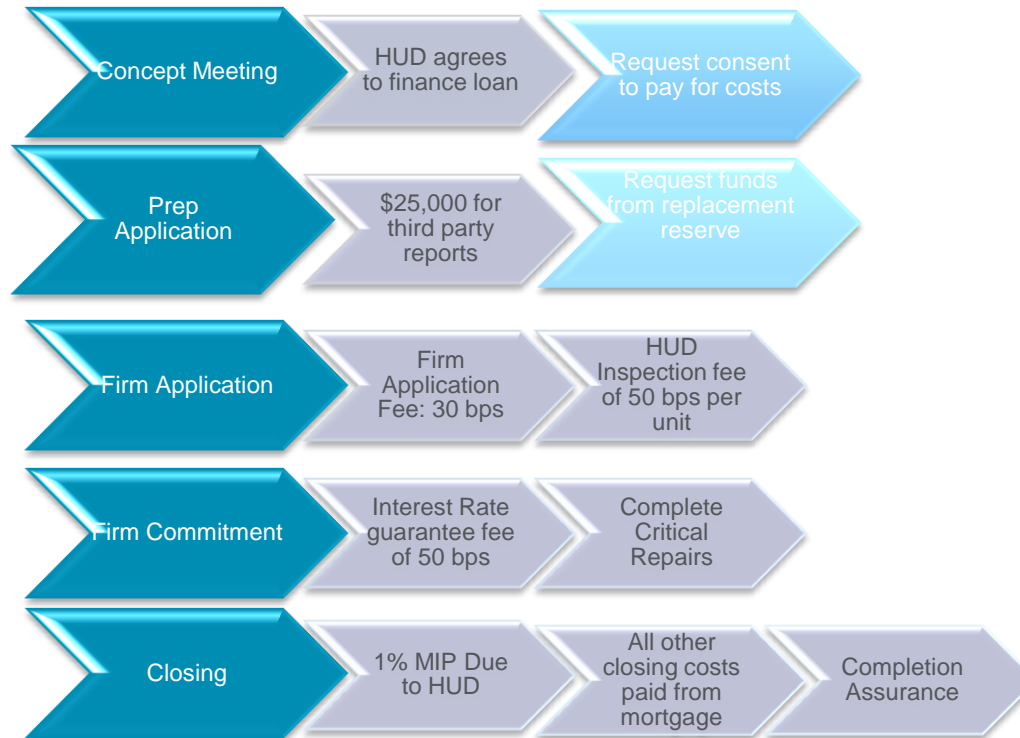
# Processing & Underwriting

# 223(f) Co-Op Refinancing Application Process



# Section 223(f)

## Acquisition or Refinance of Existing Apartments



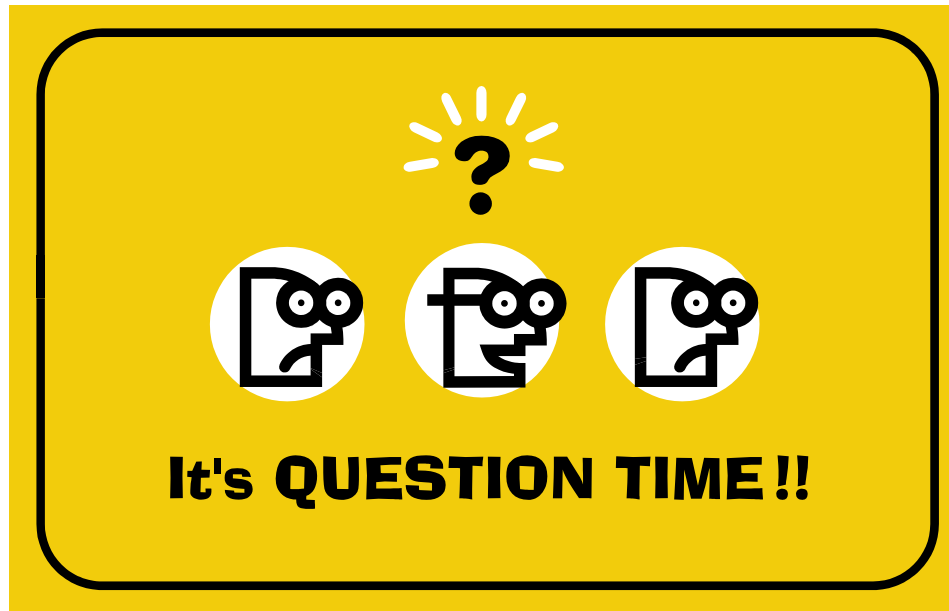
# Section 223(f) Refinance of Existing Cooperatives

| Section of the Act  | Minimum DSCR | Debt Service Limited Loan Ratio | Cost Limited Loan Ratio | MIP (Basis Points) |
|---|--------------|---------------------------------|-------------------------|--------------------|
| 223(f) non-profit   | 1.00x        | 100%                            | 65%                     | 45                 |
| Existing debt + Repairs + Closing Costs, R4R deposit, GOR deposit |              |                                 |                         | 45                 |
| *No cash out to members or non-profit                             |              |                                 |                         |                    |

# Borrower Fees and Timing

| <u>Fee</u>          | <u>Timing of Payment</u>   | <u>Estimated Cost</u>   |
|---------------------|--|---|
| Origination Fee     | At lender engagement   | 1.25% - 3%  |
| HUD Application Fee | At application for HUD Firm Commitment*<br>Market Rate – 50% at initial ap | 30 bps of the loan amount   |
| HUD Inspection Fee  | At closing   | For NC/SR: 50 bps<br><br>For Refi:<br>\$1,500 if repairs are less than \$100,000 (can be waived)<br>\$30 per unit or 1% of the proposed repairs if repairs are more than \$3,000 per unit<br>\$30 per unit if repairs exceed \$100,000 in total but are less than \$3,000 per unit. |
| Critical Repairs    | Prior to closing   | Varies by project   |
| MIP                 | At closing   | 1% or 2x annual MIP   |
| Third Party Reports | Prior to closing   | Varies by market  |

# Questions



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