



## FHA Multifamily Financing

Arbor was able to take an unusual, more challenging FHA financing transaction and truly create a win-win situation. Due to Arbor's multifamily experience and drive to find solutions for our clients, we were able to overcome the transaction's underwriting challenges and address HUD's concerns, while allowing the owner to fix the property, increase cash flow, and take out equity to reinvest/preserve other affordable housing communities.

### EXISTING LOAN

\$40 million FHA 223(f) refinancing of a large, age-restricted community subject to an aged HUD 236 Interest Rate Payment (IRP) loan and a below-market legacy Rental Assistance Payment (RAP) contract.

### ARBOR TRANSACTION

Eight-figure cash-out refinance of the HUD 236 IRP loan that recently entered into a new Project Rental Assistance Contract (PRAC).

ELEMENTS

DEAL CHALLENGES

KEY TAKEAWAYS





# ELEMENTS

## 236 TRANSACTION

- The property was an older, age-restricted community built in 1974.
- The IRP loan was subsidized by HUD, resulting in 1% interest rate.
- New project-based 20-year PRAC was executed prior to closing to replace the original RAP contract, in which RAP rents had not kept pace with current area Fair Market Rents (FMR). The new PRAC more than doubled revenues.
- Property was subject to a 50-year Payment in Lieu of Taxes (PILOT), which allowed Arbor to underwrite more loan dollars.
- IRP and PILOT savings increased loan proceeds by \$3.1 million.

## 223(f) FINANCING PROGRAM

- Property is Broadly Affordable (at least 90% subsidized). This allowed Arbor to secure a lower HUD Mortgage Insurance Premium (MIP), saving over \$150,000 annually.
  - The Broadly Affordable classification also allowed Arbor to underwrite more aggressively to high LTV (90%), low DSC (1.11), and low vacancy (3%).
- Older, infill properties often have environmental issues (this one had six recognized environmental concerns), which Arbor addressed, resulting in “no further action required” conclusions.
- Property had long history of strong occupancy (96%-98%) due to rent subsidies and lack of similar affordable properties – common among age-restricted 236 deals
- Reserve for Replacement adequacy (underwriting increased reserves due to large cash out).
- Critical repairs must be completed prior to closing.

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# DEAL CHALLENGES

## CHALLENGE 1

Critical repairs were primarily UFAS accessibility items within units. HUD regulations typically require critical repairs be completed prior to closing.

- **Arbor Action:** Recognizing the repairs would take several months to complete, Arbor requested a waiver to allow repairs to be treated as non-critical. The reclassification allowed repairs to be completed within 12 months following closing.
- **Result:** HUD granted the waiver since the property was already in HUD's portfolio, and none of the repairs were life safety issues.
- **The Arbor Advantage:** Underwriting made a sound business decision and defended its position. Owner and broker relied on Arbor to find a solution to the issue and successfully gain HUD approval.

## CHALLENGE 2

Balancing borrower desire to maximize refinance proceeds, while ensuring ample property operating reserves during the 35-year, self-amortizing loan term.

- **Arbor Action 1:** Arbor scheduled a concept meeting with HUD to identify issues, hurdles and concerns HUD might foresee. For example, HUD typically requires a 50% holdback of cash-out proceeds until non-critical repairs are completed.
- **Arbor Action 2:** Arbor submitted a HUD waiver to reduce the cash-out holdback from 50%, down to less than 3%.
- **Result:** Arbor successfully demonstrated that the risk of reducing the holdback was more than adequately mitigated. The non-critical repairs were over capitalized by a factor greater than 2x, which made HUD comfortable.
- **The Arbor Advantage:** Arbor took the initiative to identify potential HUD issues and structured a "win-win" solution that met both the borrower's objectives and HUD's risk mitigation concerns. As a result, the sponsor was able to tap significant refinancing proceeds to preserve other affordable housing units.

## CHALLENGE 3

Successfully converting a HUD 236 legacy program RAP contract to a long-term, project-based Section 8 PRAC, allowing the property to dramatically increase rents and property value. The PRAC conversion process is lengthy.

- **Arbor Action:** Working hand-in-hand with sponsor's consultant, Arbor helped structure transaction elements that maximized the HUD loan benefits.
- **Result:** The borrower was able to maximize property and loan economics to ensure the long-term viability of the subject property, as well as invest refinancing proceeds to preserve and improve additional affordable housing stock.
- **The Arbor Advantage:** Arbor's collaborative team of internal and external experts leveraged its decades of financing experience and proved its skills at structuring complex transactions.

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## KEY TAKEAWAYS

- Although the preceding case study represented a refinancing transaction, similar opportunities exist for the savvy investor to capitalize on under-managed affordable housing acquisition opportunities. Accordingly, Arbor provides bridge financing that allows investors to close quickly.
- Whether a multifamily transaction requires bridge, permanent, or construction/sub rehab financing, Arbor provides “one-stop shop” multifamily mortgage solutions.
- Borrowers who choose Arbor partner with “best in class” professionals who manage the entire loan life cycle – origination, underwriting, closing, and servicing – so we are with you every step of the way.

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**Contact Arbor today for all of your FHA financing needs**



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