



FHA Section 223(f) FHA - Insured Financing for the Acquisition or Refinance of Existing Multi-Family Rental Housing

Through the FHA Section 223(f) Mortgage Insurance Program, **RKO Capital LLC** ("**RKO CAPITAL**") is actively arranging long-term, fixed rate, non-recourse financing for the acquisition or refinance of existing multifamily rental housing throughout the United States.

PROGRAM SUMMARY

Purpose:

The intent of the FHA Section 223(f) program is to facilitate the acquisition and refinancing of existing multifamily rental housing to help preserve the national housing stock.

Eligible Projects:

Existing multifamily rental housing more than three years old (from the date of issuance of the final occupancy permit to the date of application for FHA mortgage insurance). However, if the project was constructed with a HUD-insured mortgage, the property is eligible at the expiration of the latent defects warranty period and is exempt from the three year rule.

Repairs:

Minor repairs and replacements, while not a prerequisite for eligibility, are allowed and are payable from mortgage proceeds. However, such repairs cannot exceed 15 percent of HUD's final estimate of value after repairs or \$6,500 (plus the applicable high cost factor) on a per unit basis, whichever is greater. Additionally, no more than one major building component may be replaced. Appliances and life-safety systems and equipment are exempt from these limits.

Commercial Space:

Commercial space cannot exceed 20 percent of the total net rentable area of the project and commercial income shall not exceed 20 percent of the estimated total effective gross income (EGI) of the project.

Loan Features:

- Low fixed interest rates
- Up to 35 year term
- Up to 85% loan-to-value ratio
- Fully amortizing
- Non -recourse
- Fully assumable with approval
- Pre-payable with restrictions
- No rent or income restrictions (unless required by LIHTC or tax exempt bonds)
- No limitations on owner's return
- Mortgage proceeds may be used to pay for acquisition or refinancing costs, including the cost of repairs, financing costs, and initial deposit to replacement reserve.



Maximum Mortgage:

Acquisitions: The mortgage amount is limited to the lesser of:

- 1) 85% of HUD's estimate of fair market value after repairs
- 2) 85% of net income capitalized by loan constant
- 3) 85% of acceptable transaction costs
- 4) Per unit statutory limits as established by HUD

Refinancing: The mortgage amount is limited to the lesser of:

- 1) 85% of HUD's estimate of fair market value after repairs
- 2) 85% of net income capitalized by loan constant
- 3) The greater of:
 - a) 100% of acceptable transaction costs
 - b) 80% of fair market value
- 4) Per unit statutory limits as established by HUD

Transaction costs which can be cost certified and typically funded from mortgage proceeds include the following:

- Purchase price or existing indebtedness
- Minor repairs and replacements
- Appraisal, Engineering, Environmental Reports
- Initial deposit to replacement reserve
- Financing and Placement fees - not to exceed 3.5% (5.5% for Bond financed transactions)
- First year HUD mortgage insurance premium of one percent (1.00%); one half of one percent (0.50%) thereafter
- Legal, Organizational, Title & Recording, and Survey Fees
- HUD Application Fee (0.30%)
- HUD Inspection Fee - only applicable on projects requiring repairs. If repairs are proposed, the inspection fee is the greater of \$30 per unit or one percent (1.00%) of the cost of repairs.

Funding Sources:

RKO CAPITAL will issue GNMA mortgage backed securities or arrange for loan funding through a whole loan investor. Tax exempt bonds may also be utilized.

Secondary Financing:

For profit motivated borrowers, secondary financing is permitted under an uninsured surplus cash note. However, the aggregate amount of the insured first mortgage and any approved secondary financing cannot exceed 92.5% of HUD's fair market value, unless said secondary financing was provided by a government agency. Secondary financing provided by Federal, State or local government agencies or instrumentalities may be approved up to the difference between the first mortgage and HUD's fair market value.

Annual Audits:

Annual audits are required to be filed with HUD.

Distributions:

All distributions from surplus cash shall be made after the end of a semi-annual or annual fiscal period.



Required Escrows:

Mortgage Insurance Premium: (MIP)

The annual MIP due HUD is calculated at 0.50% of the outstanding principle balance and is escrowed monthly with the principle and interest payments, commencing with amortization.

Real Estate Taxes and Property Insurance, etc.

These escrows are established at closing and are held in a non-interest bearing account by RKO CAPITAL. Thereafter, deposits to the real estate tax and property insurance escrow accounts are required on a monthly basis.

Replacement Reserve

An initial deposit to the replacement reserve account is established at closing. At the request of the borrower these funds may be invested for the benefit of the property. Typically, the initial deposit to the replacement reserve will be funded from mortgage proceeds. Additionally, monthly deposits to the replacement reserve account are also required. The amount of the required initial deposit and monthly deposits are determined from the lender's review of an independent third party inspection of the property. Reserve funds can be drawn upon by the borrower after the closing and throughout the life of the loan for capital improvements to the property.

Initial Operating Deficit or Operating Deficit Escrow

On occasion, a project may be underwritten and insured by FHA whose operations is not expected to cover the debt service payments for a period of time following loan closing. In such cases, the borrower will be required to provide RKO CAPITAL with cash or a letter of credit to cover the anticipated deficit. Typically any monies remaining on deposit after the project has achieved sustaining occupancy for 90 consecutive days may be released to the borrower.

Projects Involving Repairs:

Repairs may not exceed the greater of 15% of HUD's final estimate of value after repairs or \$6,500 per unit (plus the applicable high cost factor). Additionally, no more than one major building component may be included in the repairs.

Critical and Non-Critical Repairs:

Critical repairs must be completed, inspected and approved by HUD before loan closing. However, non-critical repairs may be deferred until after the closing. Non-critical repairs are those that will not:

- endanger the safety and well-being of tenants, visitors and passersby;
- adversely affect ingress or egress, or;
- prevent the project from reaching sustaining occupancy.

Repair Escrow:

Whenever non-critical repairs are to be completed after loan closing, a repair escrow must be established. Repairs should begin immediately after closing and must be completed within 12 months.



Escrow Agreement:

1. The mortgagor must establish a repair escrow with RKO CAPITAL equal to at least 150 percent of the estimated cost of the repairs to be completed after loan closing. The escrow shall be funded as follows:

a) Costs of the repairs (including materials, labor, permits, profits, etc., trended to the start of repairs) must be established and withheld in cash from mortgage proceeds and placed in escrow. A letter-of-credit may not be substituted for this 100 percent cash escrow.

b) An additional cash amount (or a letter-of-credit at the option of RKO CAPITAL) of not less than 50 percent of the repair cost estimate will also be placed in escrow.

RKO CAPITAL will release funds from the escrow as work is completed as authorized by HUD.

Prevailing Wage Requirements:

Prevailing wages are not required on Section 223(f) projects.

HUD Processing Procedures:

Arranging HUD/FHA Insured Financing entails two key steps, as follows:

- 1) Firm Commitment Application
- 2) Lock-In Financing and Closing

RKO CAPITAL will prepare a preliminary underwriting of the proposed project and contact HUD to advise them of the forthcoming Firm Commitment Application.

Step 1: Firm Commitment Application:

RKO CAPITAL will work with the Borrower to develop a team of professionals and coordinate the documents required for submission of a Firm Commitment Application to HUD. The submission will include all of the information about the Project, Borrower, Management Agent, repairs, market feasibility, and appraisal data as well as the final underwriting and loan recommendation. The Application Fee for the submission is 3/10 of 1% of the mortgage amount requested. HUD should respond within 60 days of an acceptable submission. Upon issuance of the Firm Commitment, RKO CAPITAL will proceed to the next step which is the rate lock and preparing for closing.

Step 2: Financing and Closing

Upon HUD's issuance of a Firm Commitment to insure the mortgage and the Borrower's acceptance, RKO CAPITAL will arrange the funding of the loan. Closing documents will be prepared and the closing will then be scheduled. We strongly recommend qualified legal counsel that specializes in closing FHA-Insured loans be utilized for the closing. RKO CAPITAL works closely with several qualified attorneys and would be happy to make recommendations.



Preliminary Analysis Information :

If you provide RKO CAPITAL with the following preliminary information, we will be pleased to provide you with a mortgage proposal at no charge which will outline the level, terms, and conditions of the financing we can arrange for you:

- 1) Project description including the unit mix with square footages, amenities and land acreage
- 2) Site location map
- 3) Current rent roll (with summary of any rent concessions)
- 4) Year to date operating statement and past 3 years of income and expense statements
- 5) If refinance, summary of existing debt and copy of mortgage(s) and note(s)
- 6) If acquisition, copy of option or purchase contract
- 7) List of any proposed repairs and cost estimates
- 8) Resume on proposed borrower and management agent
- 9) Any available Market Studies, Appraisals, Environmental and/or Engineering Reports
- 10) Existing Title Report
- 11) Ownership articles of incorporation

If our mortgage proposal is acceptable to you, we will initiate the processing of your loan application.