The HUD Checklist *Isn't What You Think*

Many borrowers avoid the HUD 223(f) program because they believe the due diligence process is significantly more demanding than FNMA, Freddie, or a life company. In practice, the documentation requirements are nearly identical — and in some areas, HUD asks for less.

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A recent client of ours mentioned how the HUD due diligence checklist wasn't actually that bad. "You always hear that HUD is hard," he told me, "but the checklist we had to provide wasn't harder than anything we have to provide for any other lender." This is a sentiment that we encounter a lot. Many borrowers avoid the HUD 223(f) program because they have heard that the due diligence process is unusually demanding — more demanding than what FNMA, Freddie, or a life company would require on the same transaction. That assumption is generally not correct, and it causes borrowers to pass on one of the most competitive financing programs available.

The sentiment usually comes from one of two places. Either the borrower is conflating a 223(f) refinance to a HUD construction loan, which does have more paperwork due to the Davis-Bacon requirements and HUD Cost Review, or they are reacting to the timeline rather than the paperwork. A HUD 223(f) refinance does take longer to close than a conventional agency execution — roughly two extra months. But the documentation a borrower actually has to provide is not meaningfully different from what any other agency program would ask for.

This article walks through the checklist for a 223(f) refinance and compares it item by item to Fannie Mae, Freddie Mac, and life company requirements. The goal is to give borrowers an accurate picture of what they are actually signing up for, so the decision to use or avoid the program is based on its real trade-offs rather than its reputation.

01

CONTEXT

Where the reputation *comes from.*

The 223(f) program's reputation for heavy due diligence comes from two specific contexts where the documentation requirement genuinely is more intensive — but neither of them is a 223(f) refinance.

The first is construction lending. HUD's 221(d)(4) program, which finances ground-up construction and substantial rehabilitation, requires more documentation than a bank construction loan. Davis-Bacon prevailing wage compliance, cost certifications, architect certifications, and detailed draw procedures all add documentation that doesn't exist with a 223(f) refinance. Borrowers whose only experience with HUD has been on a construction deal have a reasonable, but incomplete picture, of the HUD program overall.

The second is borrowers' lingering connection of HUD with affordable housing. Many borrowers hear HUD and immediately think of affordable projects involving LIHTC reporting, Section 8 contracts, or other subsidy programs that require additional documentation. They then assume that a HUD-insured mortgage must carry the same burdensome requirements. But for a market-rate 223(f), HUD doesn't require any additional documentation or restrictions beyond what is described in this article. And if the project does have affordable components, the checklist does grow to capture those affordability restrictions — but this is not a HUD-specific burden. Any institutional lender working on a LIHTC deal, whether Fannie Mae, Freddie Mac, or a life company, will require tax credit equity documentation, reservation letters, pay-in schedules, and subsidy compliance materials.

02

THE ACTUAL CHECKLIST

What a borrower *actually provides.*

The documentation we request from a borrower for a 223(f) engagement falls into two categories: property documents and entity and principal documents.

On the property side, the borrower provides the existing loan statement, a preliminary title report and ALTA survey, certificates of occupancy, the current rent roll, three years of historical financials, the current trailing-twelve income and expense statement, bank statements, and a twelve-month forward budget. If the property has a commercial tenant, the commercial lease is needed. If the property has a tax abatement, the governing documentation is included.

On the entity and principal side, the borrower provides an organizational chart of the ownership structure, organizational documents for the borrowing entity and any controlling entities, resumes for the active principals, financial statements for the principals, and a Real Estate Owned (REO) schedule. Each active principal also completes a Previous Participation Certification, submitted either through HUD's APPS system or on the paper form HUD-2530.

One interesting distinction on the principal documentation: HUD only requires these materials from principals who have a financial interest or a controlling role in the borrowing entity. Passive investors — limited partners with no decision-making authority — are not required to provide financial statements or certifications. This is different from Fannie Mae and Freddie Mac, which typically require documentation from all principals regardless

of their level of involvement. For the principals who do provide financial statements, the requirement is also tiered: entity-level principals provide three years of financial statements, while individual principals provide only a current personal balance sheet.

When comparing this list to what Fannie Mae, Freddie Mac, or a life company would require, the overlap is nearly complete. The rent roll, operating history, entity documents, principal financials, and REO schedule are standard items in any institutional underwriting process. In the case of passive limited partners, the HUD requirement is actually better — which we have found is important to our clients who don't want to burden their LPs unnecessarily.

> **THE PREVIOUS PARTICIPATION CERTIFICATION**
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> The **Previous Participation Certification** — submitted through HUD's APPS system or on the paper form HUD-2530 — has no direct equivalent in a conventional agency process. It discloses the principals' prior history with HUD-insured properties and is required for every active principal. For borrowers who have never done a HUD loan, this is a new form to complete. For borrowers who have done one before, it is an update to their existing record. A lender experienced in HUD origination handles the APPS registration process and can walk first-time participants through it.

03

SIDE-BY-SIDE

HUD versus conventional agency — *item by item.*

The table below compares the standard documentation requirements for a multifamily refinance across four common loan types: Fannie Mae DUS, Freddie Mac SBL/Optigo, a representative life company execution, and HUD 223(f).

DOCUMENTATION CATEGORY	FANNIE MAE	FREDDIE MAC	LIFE CO.	HUD 223(F)
Current rent roll	✓	✓	✓	✓
3 years operating statements	✓	✓	✓	✓
Trailing-12 income/expense statement	✓	✓	✓	✓
12-month forward budget	✓	✓	✓	✓
Bank statements	✓	✓	Varies	✓
Existing loan statement / payoff	✓	✓	✓	✓

DOCUMENTATION CATEGORY	FANNIE MAE	FREDDIE MAC	LIFE CO.	HUD 223(F)
Title report and ALTA survey	✓	✓	✓	✓
Certificates of occupancy	✓	✓	✓	✓
Principal resumes	✓	✓	✓	✓
Principal financial statements	✓	✓	✓	✓
Real Estate Owned (REO) schedule	✓	✓	✓	✓
Borrowing entity organizational documents	✓	✓	✓	✓
Environmental Phase I	✓	✓	✓	✓
Property condition / capital needs assessment	✓	✓	✓	✓
MAI appraisal (lender-ordered)	✓	✓	✓	✓
Previous Participation Certification	—	—	—	✓ (APPS / HUD-2530)
Management agent documentation	Standard	Standard	Standard	Standard + a few HUD forms
Surveyor's certification (HUD-specific form)	—	—	—	✓ (HUD 91073M)

The two HUD-specific items are the Previous Participation Certification and the HUD-specific surveyor's form (HUD Form 91073M), which is completed by the licensed surveyor alongside the ALTA survey they are already producing. The management agent documentation is similar across all lenders, with HUD requiring a small number of additional standardized forms — primarily the Management Entity Profile (HUD Form 9832) and a Previous Participation Certification for the management company.

The HUD-unique items are procedural additions rather than new disclosure categories. Neither requires the borrower to gather or produce information that wouldn't already exist in the normal course of owning the property.

04

REAL DIFFERENCES

What actually *is* different about HUD.

The documentation comparison above is not meant to suggest that a HUD 223(f) execution and a conventional agency execution are equivalent. There are differences and borrowers should understand them before deciding whether the program makes sense.

The timeline is longer. A Fannie Mae or Freddie Mac refinance generally takes three to four months from engagement to closing. A HUD 223(f) refinance takes five to six months. That difference — roughly two additional months — is the most significant practical constraint for most borrowers considering the program. It is not a documentation issue. HUD requires that we submit the loan application for HUD's review and that process has a built-in timeline that the lender cannot compress. Borrowers who need to close quickly should use a conventional FNMA or Freddie execution. Borrowers who can plan for a five-to-six month process should evaluate the 223(f) alongside the other agency options.

The third-party reports are in HUD-specific formats. The Capital Needs Assessment (CNA) and the appraisal must be completed by HUD-approved vendors using HUD-prescribed methodologies. These are ordered and managed by the lender, not the borrower. The CNA does go somewhat further than a standard Property Condition Assessment, particularly in its evaluation of ADA and Fair Housing Act accessibility compliance, which receives a more detailed review under HUD's process than under FNMA, Freddie, or life company assessments.

The management agent requires HUD approval. HUD approves not only the property and the borrowing entity, but also the management company. The management agent completes the same documentation any institutional lender would require — a resume, financial statements, and a management agreement — plus a small number of HUD-specific forms, primarily the Management Entity Profile (HUD Form 9832) and a Previous Participation Certification. Management companies that have already been approved on prior HUD transactions will generally have these materials on file and can simply update them.

05

THE TRADE-OFF

When the trade-off *makes sense.*

The HUD 223(f) program provides permanent financing on terms that are not available through conventional sources. The loan is non-recourse, fully amortizing over 35 years, fixed-rate, and assumable at sale, with no personal guaranty required. For market-rate properties, the maximum loan-to-value is 87% (80% if cash out) at a minimum debt service coverage ratio of 1.15x, with even better underwriting parameters for affordable housing transactions. The HUD interest rate is often better than what Fannie Mae, Freddie Mac, or life companies offer on comparable transactions, and the 35-year amortization typically produces a lower annual debt service than any conventional alternative.

For long-term holders, the 35-year fully amortizing structure eliminates the refinancing risk that comes with conventional balloon loan structures — there is no maturity event that exposes the borrower to cap rate risk or interest rate risk at an unpredictable point in the future. The assumability of the loan adds additional value at disposition: a buyer can assume the existing mortgage, including its rate and remaining term.

06

BOTTOM LINE

What you should actually *be asking*.

The documentation required to pursue a HUD 223(f) refinance is not materially different from what a borrower would provide for a Fannie Mae, Freddie Mac, or life company execution on the same property. The checklist is largely the same. The items that are HUD-specific — the Previous Participation Certification and the surveyor's form — are procedural requirements that an experienced HUD lender handles as part of the standard origination process.

The real differentiator is the timeline. The HUD review process adds roughly two months to what a conventional agency execution would take. For borrowers who can accommodate that schedule, the program offers terms — a 35-year fully amortizing non-recourse loan at competitive rates with no balloon risk — that no conventional lender can match. For borrowers who need to close quickly, a conventional execution makes more sense, with HUD as an option on the next refinancing cycle.

If you have a deal you are evaluating and would like to understand whether the 223(f) program is a fit, we are happy to walk through it. We can generally give a clear feasibility assessment within a few days of receiving basic property information, and we will tell you directly whether the program makes sense for your specific situation.

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HUD/FHA Multifamily Origination

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