HUD Multifamily Loans: A Sponsor's Guide to *FHA Financing*

The Four Primary HUD Multifamily Programs, Plus the Trade-Offs

If you own, develop, or are looking to acquire apartment buildings, you've probably come across HUD financing — sometimes called FHA multifamily financing — as a long-term debt option. This guide walks through what these loans are, when they fit, and what the four primary programs do.

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HUD multifamily loans are **non-recourse, fixed-rate, fully amortizing mortgages with terms of 35 to 40 years** — a structure that doesn't exist anywhere else in the multifamily debt market. The trade-off is that HUD takes longer to close and requires more documentation than a bank or agency loan. This guide walks through what HUD multifamily financing is, why sponsors use it, the four primary programs, and the trade-offs you need to plan around.

01
WHAT IT IS

What HUD Multifamily Loans *Actually Are*

If you own, develop, or are looking to acquire apartment buildings, you've probably come across HUD financing — sometimes called FHA multifamily financing — as a long-term debt option. The two terms refer to the same thing, and we'll come back to that in a moment. What sponsors actually want to know is what these loans look like, when they fit, and what they cost in time and complexity to close.

The short answer: HUD multifamily loans are non-recourse, fixed-rate, fully amortizing mortgages with terms of 35 to 40 years. **Non-recourse** means there is no personal guaranty — if the property fails, the lender's only recourse is the property itself. **Fixed-rate** means the interest rate is locked at closing for the entire life of the loan. **Fully amortizing** over 35 to 40 years means the loan pays itself down to zero over its term, with no balloon payment and no refinance event — the same way a 30-year residential mortgage works on a personal home. You close once and that financing can be on the asset for a whole 35 or 40 years — and the loans are assumable if you decide to sell.

That structure is unusual in commercial real estate. Bank loans on apartment buildings typically run 5 to 10 years with a balloon at the end. Agency loans from Fannie Mae and Freddie Mac are usually written on a 10-year term but amortized over 30 years, which means the borrower makes payments sized for a 30-year payoff but has to refinance the unpaid balance at year 10. HUD is the only widely available program in the multifamily market where the term and the amortization match — 35 or 40 years on both — and stretching the principal-and-interest payment over that longer period results in a lower monthly debt service than the same loan amount would carry on an agency or bank structure.

02

TERMINOLOGY

HUD or FHA? *Same Thing.*

The terminology gets used interchangeably and it confuses a lot of first-time sponsors. HUD is the U.S. Department of Housing and Urban Development — a federal cabinet agency. FHA is the Federal Housing Administration — a division within HUD that insures the loans we're talking about here. When someone says "HUD multifamily loan," "HUD apartment loan," or "FHA multifamily loan," they're almost always talking about the same product: a multifamily mortgage insured by FHA, which is part of HUD.

It's worth understanding what that insurance actually means. HUD doesn't originate loans, and a borrower can't apply directly to HUD for a multifamily mortgage. The actual funding comes from a HUD-approved lender — a MAP lender, in industry terms — that underwrites the loan, closes it, and funds it at the closing table. HUD's role is to insure the loan against borrower default. The lender is your counterparty for the life of the mortgage; HUD is the federal insurer standing behind it.

The insurance is also what produces HUD's competitive interest rates. Once a HUD-insured loan closes, the lender securitizes it into a Ginnie Mae mortgage-backed security. Ginnie Mae securities trade at a meaningful spread inside conventional agency commercial mortgage-backed securities because of the HUD federal insurance backing them — mortgage-backed securities investors will accept a lower yield on debt that has the full faith and credit of the U.S. government standing behind it. That spread is what produces the low all-in rates that HUD multifamily loans are known for. The structural cost of that low rate is the time HUD takes to insure the loan, which is the trade-off we'll come back to in the program sections.

03

WHY SPONSORS USE IT

Why Sponsors Use *HUD Multifamily Financing*

The low interest rates and 35-to-40-year fully amortizing structure are the headlines, but they aren't the only reasons sponsors choose HUD. Several other features stack on top of them.

Higher leverage than the alternatives. HUD allows up to 87% loan-to-value on a market-rate acquisition or refinance and up to 87% loan-to-cost on a market-rate new construction deal. Affordable deals get 90% on both. Whereas bank financing on apartment buildings typically tops out around 65% to 75% loan-to-value. Agency lenders will sometimes go higher than banks but rarely match HUD's ceiling. For sponsors trying to minimize equity contribution on a construction deal or maximize cash out on a refinance, HUD usually produces the largest mortgage of any option.

No refinance risk for the life of the hold. Because the loan is fully amortizing over 35 or 40 years, there is no maturity event to plan around. A sponsor who has a project with a 10-year bank or agency loan has to refinance — and re-underwrite the deal at whatever rate environment exists at year 10 — or sell. HUD removes that decision. If rates triple, you keep paying your locked rate. If cap rates expand between acquisition and the refinance maturity, the property's value declines even when NOI is flat or growing, and the refinance proceeds may not be sufficient to pay off the existing loan. That risk does not exist on a HUD loan. The interest rate risk and the cap-rate-driven valuation risk both disappear at closing.

Assumability lets the financing transfer with the asset. When a sponsor sells a HUD-financed property, the buyer can assume the existing loan subject to HUD approval. In a higher-rate environment, an assumable below-market loan is a meaningful asset in its own right — buyers will pay more for the property because they're inheriting financing they can't replicate in the market.

Reserves and oversight that protect the asset. HUD requires a replacement reserve funded monthly out of operations and a regulated operating account. Some sponsors view the reserve and reporting requirements as friction, however, over a long hold, a property carrying HUD's required reserves is meaningfully better capitalized for capital events than one without them, and the capital is the sponsor's own money sitting in the deal — not a fee paid to anyone.

04

THE PROGRAMS

The Four Main *HUD Multifamily Programs*

HUD's multifamily insurance programs are organized by section number under the National Housing Act. The four programs that cover the vast majority of multifamily transactions are the 223(f), the 221(d)(4), the 223(a)(7), and the 241(a). Each one fits a different stage of the asset lifecycle, and the right program for a given deal is usually obvious once the situation is described. Each program section below includes links to our deeper material.

HUD 223(f) — *Acquisition or Refinance of a Stabilized Property*

The 223(f) is the workhorse of the HUD multifamily program. It's used to acquire or refinance an existing apartment building that is operating at stabilized occupancy. The 223(f) closes a 35-year fully amortizing non-recourse loan at up to 87% loan-to-value on a market-rate deal or 90% on an affordable deal. In practice, the 223(f) is most often used to refinance an existing bank, agency, or bridge loan on a stabilized property. The reason is timing: a 223(f) takes roughly 5 to 6 months from engagement to closing, which is longer than most sellers will wait.

Our 223(f) loan sizing calculator solves all four sizing tests against your inputs in about a minute, and our 223(f) application checklist walks through everything HUD will need before we can submit a Firm Application.

HUD 221(d)(4) — *New Construction or Substantial Rehabilitation*

The 221(d)(4) is HUD's construction-to-permanent loan. It funds the construction of a new apartment building, or a substantial rehabilitation of an existing one, and converts at certificate of occupancy into a 40-year fully amortizing non-recourse permanent loan. The sponsor closes one loan, draws on it through construction, and never goes through a separate permanent financing event. There is no construction-to-perm risk, no second closing, no rate reset between construction and stabilization.

The 221(d)(4) closes a 40-year fully amortizing non-recourse loan at up to 87% loan-to-cost on a market-rate deal or 90% on an affordable deal. Maximum proceeds are governed by three sizing tests: an LTC test against total development cost (which includes land), a debt service coverage test sized against stabilized pro forma NOI (1.15x market-rate, 1.11x affordable), and a statutory per-unit limit set by HUD by building type and bedroom mix. The lowest of the three governs. Which test binds depends on the deal — most market-rate deals in normal cost environments bind on LTC, the DSCR test starts to matter at higher interest rates, and the statutory limit can bind in high-rent metros like Manhattan or San Francisco where construction costs run well above the per-unit ceilings HUD publishes.

The 221(d)(4) is the right program for two situations. The first is ground-up construction of a new multifamily project, where the sponsor wants permanent financing locked in at construction start and wants to avoid the construction loan / mini-perm / permanent refi sequence that bank-financed projects go through. The second is substantial rehabilitation of an existing property — typically a major capital reinvestment in a property the sponsor already owns or is acquiring, or an adaptive reuse conversion such as an office building converted to apartments. Substantial rehab under 221(d)(4) requires the scope of work to clear a HUD-defined cost threshold; smaller renovation budgets don't qualify and route to a 223(f) with a repair escrow instead.

The 221(d)(4) timeline is roughly 12 months from engagement to closing, which is longer than the 223(f) and meaningfully longer than a bank construction loan. The reason is less of a slow-moving problem and more of a timeline issue. HUD is anticipating that they engage with the project earlier in the design process than a bank does — the HUD process requires two formal reviews (a Pre-Application and a Firm Application) where conventional construction financing requires one. Developers most often feel the timeline as a delay when they call a HUD lender with near-final plans and an expected groundbreaking in 30 to 60 days. Developers who engage a HUD lender at the start of the development process — while the architect is still in schematic design — find that the HUD timeline runs concurrently with the design and entitlement work they were already doing, rather than adding to it.

We cover the 12-month process and the case for engaging early in our 221(d)(4) timeline white paper, our 221(d)(4) loan sizing calculator solves all three sizing tests against your inputs, and our BSPRA white paper explains the technique that lets construction sponsors capture additional equity at closing.

HUD 223(a)(7) — *Refinance of an Existing HUD Loan*

The 223(a)(7) is a rate-reduction refinance available only to borrowers who already have a HUD-insured first mortgage. It refinances the existing HUD loan into a new HUD loan, typically at a lower interest rate, without the borrower going back through a full underwriting process. There is no new appraisal, no new market study, and no new environmental review. The application is meaningfully lighter than a 223(f) and the timeline is shorter — roughly 3 to 4 months from engagement to closing, compared to 5 to 6 months for a 223(f).

The new loan amount can be sized up to the original principal balance of the loan being refinanced. The headroom between the current unpaid principal balance and the original principal — which exists because every HUD loan amortizes from day one — is what makes the 223(a)(7) economically powerful. That headroom can be used to fund the new loan's financing fees and roll part or all of the prepayment penalty on the existing loan into the new mortgage, rather than requiring the borrower to write a check at closing. On a typical 223(a)(7) refinance several years into the original loan, the headroom is large enough to absorb both the fees and most of the prepayment penalty, which means the borrower captures a lower rate without having to come out of pocket. Whatever portion of the prepayment penalty can't be absorbed into headroom gets priced into the new rate as a small spread above market — usually a few basis points. The new loan term can also extend up to 12 years beyond the maturity of the existing loan. Sponsors who take that extension get a longer remaining amortization on the same loan amount, which produces a lower monthly P&I on top of whatever rate reduction the refinance captures.

The 223(a)(7) is the right program for a sponsor whose existing HUD loan is at an above-market rate and who wants to capture a drop in the Treasuries without writing a large check at closing. It is not available for borrowers refinancing a non-HUD loan into HUD financing — those situations route to the 223(f) under the standard 223(f) underwriting and timeline. We cover the full mechanics, including how to calculate whether a 223(a)(7) refinance makes economic sense given the existing loan's prepayment penalty, in our comprehensive 223(a)(7) and IRR loan modification white paper, which walks through the full program — including a side-by-side comparison with the IRR (Interest Rate Reduction) loan modification, the math on how the new mortgage absorbs the prepayment penalty, the PCNA process and what it can surface, and a worked example showing how the 223(a)(7) typically produces meaningfully better debt service savings than the IRR despite both being designed for the same purpose.

HUD 241(a) — *Supplemental Loan on a HUD-Insured Property*

The 241(a) is a supplemental loan available to borrowers who already have a HUD-insured first mortgage. Like the 223(a)(7), it requires an existing HUD loan as the predicate — but unlike the 223(a)(7), it isn't a refinance. The 241(a) sits on top of the existing mortgage as new debt and funds either capital improvements to the existing property or, more interestingly, ground-up construction of additional units on the same or nearby parcel.

The new-unit application is the 241(a)'s most powerful feature and the one most sponsors don't know exists. The MAP Guide allows the 241(a) to finance construction of additional units up to the unit count of the existing building — a 200-unit existing project supports up to 200 new units — at 90% loan-to-cost and a 1.11x DSCR. The DSCR test is the structural feature that drives the leverage: it's a *combined* DSCR across both the existing first mortgage and the new 241(a), not a standalone test on just the new phase. A well-stabilized existing asset that's covering its first mortgage at 1.30x or 1.40x has meaningful excess NOI to apply against the new phase's coverage requirement, which on the right deal produces construction leverage that's nearly impossible to replicate in any other product.

The Davis-Bacon treatment is the second major feature. Davis-Bacon prevailing wage requirements are inherited from the underlying mortgage — not triggered by the 241(a) itself. If the underlying loan is a 223(f), Davis-Bacon doesn't apply to the 241(a), even though the 241(a) is funding new construction. On a large project, that's a labor cost differential that runs into the millions. A 221(d)(4) on the same new phase would carry Davis-Bacon the entire way.

The 241(a) is the right program for sponsors who already have a HUD-insured asset and are evaluating either a major capital reinvestment in that asset or a phased expansion that adds new units to the project. Our comprehensive 241(a) supplemental loan white paper covers the full program in depth — including the unit-count cap, the co-terminous loan term, the single-borrower entity requirement, the Davis-Bacon inheritance mechanic, the securitization fix that made the new-units application practical, and a worked phased-development example showing how a 223(f) refinance and a 241(a) construction loan stack together on a Phase 2 expansion.

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THE TRADE-OFFS

The Trade-Offs of *HUD Financing*

HUD multifamily financing isn't free of friction, and the friction is real enough that it's worth understanding before engaging. The trade-offs vary meaningfully by program. A 223(f) refinance carries a 5-to-6-month timeline and a more rigorous third-party report standard than agency lenders apply, particularly around environmental review and accessibility compliance under ADA, the Fair Housing Act, and Section 504. A 221(d)(4) construction loan carries the longest closing timeline of any HUD program, plus HUD's Architectural and Engineering Cost Review, plus Davis-Bacon prevailing wage compliance throughout construction. A 223(a)(7) refinance is the lightest of the four programs but resets the prepayment penalty schedule on the new loan and requires a new Property Capital Needs Assessment that can surface deferred maintenance items. A 241(a) supplemental loan inherits the documentation profile of the underlying mortgage and adds the entity-structure complexity of treating two phases as a single project under a single borrower. We cover each program's friction profile in detail in the program-specific guides linked above, and we cover the most common ways HUD deals get derailed in our 5 reasons HUD deals stall white paper.

HUD loans also carry a Mortgage Insurance Premium of 0.25% per year, paid as part of debt service over the life of the loan, in exchange for the FHA insurance that allows the long-term non-recourse structure and the Ginnie Mae securitization that produces the low all-in rates. Sponsors sometimes treat MIP as a cost penalty against

the interest rate on a like-for-like comparison with agency or bank financing, but on most deals the all-in cost — interest rate plus MIP — still comes in below a comparable agency or bank execution sized to the same proceeds.

One thing sponsors often think is a big trade-off is the prepayment penalty schedule, which on a HUD loan is structured as a step-down over the first 10 years of the loan. The conventional wisdom in the multifamily market is that agency yield maintenance and CMBS defeasance are more sponsor-friendly than HUD's step-down. The math tells a different story, particularly in falling rate environments — exactly when sponsors most want to refinance. Yield maintenance and defeasance penalties are calculated against the spread between the existing loan rate and current market rates, so they balloon precisely in the rate environment where refinancing is most attractive. HUD's step-down stays fixed at the schedule set at closing regardless of where rates go. We compare HUD's prepayment structure to agency yield maintenance and CMBS defeasance — and walk through when each one costs more — in our prepayment penalty white paper.

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WHO WE ARE

Who *We Are*

Wim Roach and Brian Lorenz are Vice Presidents at Centennial Mortgage, Inc., a HUD-approved Multifamily Accelerated Processing (MAP) lender. MAP lenders are the lenders authorized by HUD to underwrite and close HUD-insured multifamily loans without HUD reviewing every step of the process in real time — HUD reviews the lender's work at defined milestones, and the MAP lender carries the underwriting, processing, and closing responsibility in between. Most of the HUD multifamily transactions in the country are originated through MAP lenders.

Brian spent the early part of his career as a Senior MAP Underwriter at Colliers Mortgage, where he underwrote roughly $500 million in HUD multifamily loans across the 223(f), 221(d)(4), 223(a)(7), and 241(a) programs. In that role, every deal he submitted to HUD received a Firm Commitment. He moved to origination after building that underwriting track record, and the underwriter perspective informs how he structures deals — he can tell a sponsor early in a conversation whether a deal will work, why it will work, and what the binding constraint will be at sizing. Wim has been in HUD originations since 2014 and has closed roughly $1.5 billion across the programs. Between underwriting and origination experience the team has roughly 20 years on HUD multifamily, and we've worked on every program type and most of the deal complications HUD throws at sponsors.

Centennial retains servicing on the loans we originate, which is unusual among MAP lenders. Many HUD originators sell servicing to a third party at closing. We don't. The lender you close with is the lender you'll be calling for the next 35 to 40 years on payoff requests, transfer of physical assets, replacement reserve draws, and the operational items that come up over the life of a HUD loan. For sponsors evaluating long-term lender relationships, the difference between an originator who hands you off at closing and one who stays with the loan is a real one.

07

FAQ

Frequently Asked *Questions*

What is a HUD multifamily loan?

A HUD multifamily loan — sometimes called an FHA multifamily loan or a HUD apartment loan — is a multifamily mortgage insured by the Federal Housing Administration (FHA), which is part of the U.S. Department of Housing and Urban Development (HUD). HUD multifamily loans are non-recourse, fixed-rate, fully amortizing mortgages with terms of 35 to 40 years. They're used to acquire, refinance, build, or improve apartment buildings of five or more units. The loan is funded by an approved HUD lender at closing; FHA insures the loan against borrower default, which is what makes the long-term non-recourse structure possible.

What is the difference between HUD multifamily loans and FHA multifamily loans?

There is no practical difference for multifamily financing — the terms refer to the same product. HUD is the U.S. Department of Housing and Urban Development, the federal cabinet agency. FHA is the Federal Housing Administration, a division within HUD that insures the loans. When someone says "HUD multifamily loan," "HUD apartment loan," or "FHA multifamily loan," they're talking about a multifamily mortgage insured by FHA, which is part of HUD. Both terms are used interchangeably across the industry.

Are HUD apartment loans non-recourse?

Yes. HUD multifamily loans are non-recourse, meaning the borrower has no personal liability for the debt beyond the property itself. If the property fails, the lender's only recourse is the property. This structure is possible because FHA insures the loan against borrower default — the federal insurance substitutes for the personal guaranty that bank loans typically require. Standard HUD loan documents include "bad-boy" carve-outs that can convert non-recourse to recourse in cases of fraud, environmental indemnity, or unauthorized transfer.

How much can I borrow with a HUD apartment loan?

HUD allows up to 87% loan-to-value on a market-rate stabilized refinance or acquisition (the 223(f) program) and up to 87% loan-to-cost on a market-rate new construction or substantial rehabilitation deal (the 221(d)(4) program). Affordable deals get 90% on both. Maximum proceeds are also constrained by debt service coverage

tests (1.15x DSCR market-rate, 1.11x affordable) and by HUD's per-unit statutory limits set by building type and bedroom mix. The lowest of the applicable tests governs.

How long does it take to close a HUD apartment loan?

A HUD 223(f) refinance or acquisition typically closes in 5 to 6 months from engagement to closing. A HUD 221(d)(4) new construction or substantial rehabilitation loan typically closes in roughly 12 months. A HUD 223(a)(7) rate-reduction refinance of an existing HUD loan typically closes in 3 to 4 months. The timeline depends on the program, the readiness of the deal at engagement, and how quickly third-party reports — appraisal, market study, environmental review, capital needs assessment — can be completed.

What is a MAP lender?

MAP stands for Multifamily Accelerated Processing. A MAP lender is a HUD-approved lender authorized to underwrite, process, and close HUD-insured multifamily loans without HUD reviewing every step in real time. HUD reviews the lender's work at defined milestones — Pre-Application, Firm Application, and closing — and the MAP lender carries the underwriting and processing responsibility in between. Borrowers can't apply directly to HUD for a multifamily loan; HUD doesn't originate loans. Every HUD multifamily loan is originated through a MAP lender, who funds the loan and is the borrower's counterparty for the life of the mortgage. HUD's role is to insure the loan against borrower default. That insurance is what allows the MAP lender to securitize the loan into a Ginnie Mae mortgage-backed security and price it at rates well below conventional commercial mortgage rates. Centennial Mortgage is a HUD-approved MAP lender.

Is HUD multifamily financing only for affordable housing?

No. HUD multifamily insurance programs are available for both market-rate and affordable apartment properties. Market-rate deals get up to 87% loan-to-value or loan-to-cost with a 1.15x DSCR. Affordable deals — typically projects with Low-Income Housing Tax Credit (LIHTC) equity, Section 8 contracts, or other affordability restrictions — get more favorable terms (90% leverage and 1.11x DSCR). Most HUD multifamily loans nationally are on market-rate properties, despite the common assumption that HUD is only for affordable.

What is the difference between a HUD loan and a Fannie Mae or Freddie Mac loan?

The largest structural differences are term and recourse. Fannie Mae and Freddie Mac multifamily loans typically run on a 10-year term amortized over 30 years, with a balloon payment at maturity that requires

refinancing. HUD loans run for 35 to 40 years, fully amortizing, with no balloon. HUD loans are non-recourse with bad-boy carve-outs; Fannie and Freddie loans are also typically non-recourse with carve-outs. HUD allows higher leverage on most deals. Fannie and Freddie close meaningfully faster — 60 to 90 days versus 5 to 6 months for a HUD 223(f).

What kinds of properties qualify for HUD multifamily financing?

HUD multifamily insurance is available for stabilized apartment buildings of five or more units, new construction projects of five or more units, and substantial rehabilitations of existing multifamily properties (including adaptive reuse such as office-to-apartment conversions). Standard properties are conventional apartment buildings, but HUD also insures loans on cooperative housing, age-restricted properties, and properties with mixed commercial use up to defined commercial income and floor area limits.

Does HUD allow cash-out refinancing on apartment loans?

Yes. The HUD 223(f) program allows cash-out refinancing of stabilized apartment properties. Cash-out is governed by an additional sizing test: above the cost of refinancing the existing debt, the loan amount is capped at 80% loan-to-value rather than the standard 87%. This means cash-out 223(f) refinances are sized at the greater of the cost-of-refinance amount or 80% LTV. The 223(a)(7) refinance program does not allow cash-out — its proceeds are limited to the existing loan balance plus transaction costs, capped at the original loan amount.

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HUD/FHA Multifamily Origination

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