WIM ROACH & BRIAN LORENZ — DEAL HIGHLIGHT

How We Added $4M to a HUD 223(f) *by Reading the Tax Code*

A Recent Montana 223(f) Refinance — HB 231 / SB 542 in Action

On a recent 223(f), a Montana property tax law that had passed in 2025 — but wouldn't show up on tax bills until November 2026 — was the difference between a DSCR-constrained loan amount and one that was $4 million higher. We were the first HUD team to bring the new law to HUD, and getting it underwritten took preemptive documentation, an appraiser willing to model the change, and a closing escrow structure that bridged the gap between the closing date and the first reduced tax bill.

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THE SETUP

A DSCR-Constrained 223(f) *in Montana*

This was a 223(f) refinance on a Montana multifamily property closing in spring 2026. Like most 223(f) deals being underwritten right now, the loan was DSCR-constrained — interest rates haven't backed off enough to catch up with cap rates, and the 1.15x debt service test is doing the work of governing proceeds rather than the 80% Cash Out LTV criterion. When DSCR is the binding constraint, every dollar of underwritten NOI translates directly into loan proceeds.

02
THE TAX LAW CHANGE

Montana HB 231 and SB 542, *Billed in Arrears*

Montana's 69th Legislature passed two coordinated bills in the spring of 2025: House Bill 231 and Senate Bill 542. Together they restructured how the state taxes residential, multifamily, and commercial property.

Here's how Montana's property tax math works. The County Assessor sets a market value on the property. A statutory class tax rate is applied to that market value to produce a taxable value. The local mill levy is then applied to the taxable value to produce the actual tax bill. The class rate is what the new legislature changed — for multifamily, it dropped from 1.89% to 1.10%. Mill levies didn't change, so the net effect on the tax bill was approximately a 42% reduction.

The problem for this loan is that Montana property taxes are billed in arrears. So this change wouldn't actually be seen in cash flow until November 2026. The deal was closing in the spring of 2026 — between the November 2025 bill (under the old/interim structure) and the November 2026 bill (under the new structure).

03

WHY IT MATTERED

$400K of NOI Translates to *$4M of Loan Proceeds*

HUD's standard approach to underwriting real estate taxes on a 223(f) is to triangulate between the historical tax record and the appraiser's forward estimate of taxes. Because the loan was DSCR-constrained, the $400,000 OpEx difference between the old and new tax assumptions translated directly into approximately $4 million of additional loan proceeds. If HUD insisted on using historical taxes, the loan was going to be $4,000,000 less than it should be.

04

THE APPRAISAL

Getting the New Law *into the Report*

The appraisal is HUD's primary independent third-party document in verifying the lender's NOI underwriting. HUD usually wants the Appraiser's taxes to match the Lender's taxes exactly. Because of this, the appraiser was engaged early and walked through HB 231 and SB 542, with the underlying legal documentation provided — the bill text, the Department of Revenue's published rate tables, and legal articles explaining the implementation timeline. The appraiser noted the law in the report and presented two expense amounts: the current tax bill under the old rate structure, and an explicit estimate of what taxes would be under the new 1.10% class rate beginning with the November 2026 bill.

05

THE DSCR BRIDGE

Solving the Timing *Mismatch*

We knew HUD was going to ask one specific question: if the loan closes in spring 2026 and the underwritten NOI assumes the lower November 2026 tax bill, how does the property service debt at 1.15x during the months between closing and the first reduced tax payment? For roughly seven months, the property would still be paying taxes at the old rate, so actual cash NOI during that window would not support 1.15x.

The mitigant was the closing escrow. Real estate taxes are escrowed at closing as a matter of standard settlement procedure on a HUD loan. We argued that the escrow already covered the higher tax payments due during the interim window. The cash to pay those higher taxes was already in hand. The DSCR shortfall was

theoretical, not operational. That argument was presented up front in the Firm Application, with the escrow math worked out and the timing of payments laid out month by month.

06

PREEMPTIVE DOCUMENTATION & RESULT

Setting the Terms of *HUD's Review*

Because no other deal had come to HUD with this issue yet, the Firm Application was structured as if HUD had no prior exposure to the law. The application included the full text of HB 231 and SB 542, the Montana Department of Revenue's implementation guidance, legal opinions on how the new rates applied to the subject property, and contemporaneous news coverage establishing the timeline. Questions were answered in the narrative before HUD asked them.

HUD underwrote the taxes at the 1.10% class rate. NOI came in approximately $400,000 higher than it would have under the old tax assumption, and the 1.15x DSCR-constrained loan amount came in approximately $4 million higher.

07

FOR OTHER MONTANA OWNERS

What This Means *Right Now*

The closing-window cash flow problem we solved on this deal is going to fade. By the time the November 2026 tax bills arrive, every Montana multifamily property will be operating under the lower rate, and the trailing twelve months of tax payments will increasingly reflect that. The escrow argument we made to HUD becomes less necessary as the calendar advances.

What doesn't fade is the underwriting question. HUD's standard approach is to look at historical taxes, and historical taxes on every Montana property will continue to reflect the old 1.89% class rate for years. An owner refinancing in 2027 with two years of post-reduction tax bills in hand still has to make sure the lender and the appraiser are pulling forward the right number — not splitting the difference with stale historicals. On a DSCR-constrained deal, splitting the difference can easily cost several million dollars in proceeds.

The other reality is that we convinced one HUD underwriter on one deal. The HUD Western office handles a large geography and a lot of underwriters, and there's no internal memo that says "Montana multifamily taxes are now 1.10%." Each new deal will be underwritten by whoever is assigned, and the case for the lower tax rate will need to be made again — with the same supporting documentation, the same appraiser engagement, and the same Firm Application narrative. Owners who work with a HUD team that has already been through the conversation will get to a larger loan amount with less friction. Owners who don't may not realize what they left on the table.

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FREQUENTLY ASKED

Common Questions About *Montana, HUD, and Property Taxes*

What did Montana House Bill 231 and Senate Bill 542 change for multifamily property taxes?

HB 231 and SB 542, signed into law in 2025, restructured Montana's property tax system. For multifamily property, the statutory class tax rate — the rate applied to market value to determine taxable value — was reduced from 1.89% to 1.10%. Mill levies were unchanged, so the net effect on a multifamily tax bill is approximately a 42% reduction. The fully reduced rate shows up on the November 2026 tax bills because Montana property taxes are billed in arrears.

When does the Montana multifamily property tax reduction take effect?

Montana property taxes are billed in arrears. Tax year 2025 bills issued in November 2025 reflected an interim rate structure that did not fully implement the new homestead framework. The fully reduced multifamily class rate of 1.10% appears on the November 2026 tax bills and going forward.

How does HUD underwrite real estate taxes on a 223(f) refinance?

HUD's standard approach is to triangulate between the historical real estate tax record and the appraiser's forward estimate of taxes. The appraisal is HUD's primary independent third-party document for verifying the lender's NOI underwriting, and HUD generally wants the appraiser's tax figure and the lender's tax figure to match. When a known forward change in tax law applies, the appraiser can model that change in the report and HUD can underwrite to it with adequate documentation.

Why is real estate tax expense so important on a DSCR-constrained HUD loan?

When a HUD 223(f) loan is constrained by the 1.15x DSCR test rather than the 87% LTV or 80% Cash Out LTV criteria, every dollar of underwritten NOI translates almost directly into loan proceeds. Because real estate taxes are typically the largest single line item in operating expenses on a multifamily property, how HUD interprets the tax expense has a direct and significant impact on the maximum loan amount.

Can a Montana multifamily owner get the new lower tax rate underwritten on a HUD loan closing before November 2026?

Yes, with the right documentation and an appraiser who has been properly briefed on the new tax law. The lender must engage the appraiser early to model the post-November 2026 tax bill in the appraisal, provide HUD with the underlying legal documentation in the Firm Application, and address the timing-mismatch DSCR question by demonstrating that the closing tax escrow covers the higher tax payments due during the interim window before the first reduced bill arrives.

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HUD/FHA Multifamily Origination

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