

FHA / HUD Section 223(a)(7):

Streamlined Refinance of an Existing FHA Insured Mortgage

Section 223(a)(7) exists to let an owner who already carries an FHA insured mortgage improve that mortgage without repeating the original underwriting. There is no appraisal, no market study and no new environmental report, so the transaction turns on the existing loan documents, recent operating history and a capital needs assessment. That is why it is the fastest and cheapest execution in the FHA program set.

Owners use it to cut the coupon when rates move in their favor, to extend the remaining term by up to 12 years and lower annual debt service, to replenish a depleted replacement reserve, and to absorb the prepayment cost of the loan being retired. The new mortgage remains insured under the same section of the National Housing Act as the original.

What it cannot do is release equity. Proceeds are capped at the cost of the refinancing and no new value is established, so an owner seeking cash out belongs in Section 223(f).

Program Terms

Eligibility	Any multifamily property carrying an existing FHA insured mortgage in good standing. Blueprint can refinance a loan it originated or a loan currently held elsewhere.
Maximum Mortgage	The least of the original principal amount of the loan being refinanced, the total cost to refinance, and the amount supported by the applicable debt service coverage. Eligible cost includes the existing balance, prepayment cost, repairs, financing fees, third party costs and initial reserve deposits.
Cash Out	Not permitted.
Term and Amortization	The remaining term of the existing mortgage, extendable by up to 12 years where the extension supports continued viability, and in no case longer than the original term. That is 35 years for a mortgage originally insured under Section 223(f) and 40 years under Section 221(d)(4).
Interest Rate	Fixed and fully amortizing for the full term, set at rate lock by market conditions.
Debt Service Coverage	1.05x where at least 90% of units carry project based rental assistance and for cooperatives insured under Section 213. 1.11x for affordable and market rate properties. No loan to value test applies because no appraisal is ordered.
Recourse and Assumption	Nonrecourse subject to customary carve outs. Fully assumable with HUD approval and a fee of 0.05% of the original insured amount.
Prepayment	Customizable. A common structure is a lock out of zero to one year followed by a 10 year step down from 10% to 1%.
Borrower	The existing single asset mortgagor entity continues, subject to HUD previous participation review.

Commercial Space	Unchanged from the project as originally approved. Not more than 25% of net rentable area and not more than 20% of underwritten effective gross income.
Escrows	Taxes, insurance, mortgage insurance and replacement reserves continue. The reserve is reset by the capital needs assessment and may be replenished from loan proceeds, subject to a floor of \$250 per unit per year.
Mortgage Insurance	0.25% of the loan at closing and 0.25% annually thereafter, for every property type.
Third Party Reports	A capital needs assessment only, and that may be waived where a current assessment is already on file. No appraisal, no market study and no new Phase I environmental site assessment.
Large Loan Standards	Section 223(a)(7) is exempt from HUD large loan risk mitigation underwriting regardless of loan size.
Indicative Timing	Roughly 60 to 90 days from engagement to closing.

Debt Service Coverage

There is no loan to value criterion. The insured mortgage is the least of the original principal balance, the total cost to refinance, and the amount supported by coverage.

Property Type	Minimum DSCR	Loan to Value Test	Vacancy Factor
Rent Assisted	1.05x	Not applicable	Not permitted
Affordable	1.11x	Not applicable	Not permitted
Market Rate	1.11x	Not applicable	Not permitted

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