

Advantages of HUD Financing Compared to Conventional Financing

Loan Term

- HUD: Loan term is 40 years on a fully amortized basis for new construction or major expansion or rehab or 35-year term and amortization for existing refinancing.
- Conventional: Loan term is typically 10 years based upon a 20 to 30-year Amortization Schedule. Renewal options might be negotiated for additional periods.

Recourse

- HUD: Loans are nonrecourse
- Conventional: Personal liability is required in many cases, and there are always "carve-outs" from non-recourse provisions.

Loan to Value Ratio

- HUD: Loan-to-value is 90% for new construction and 85% for typical refinancing. Refinancing may qualify for up to 100% loan-to-cost funding.
- Conventional: 75% loan-to-value is typical

Interest Rate

- HUD: The interest rate is fixed and will not change for the life of the loan.
- Conventional: Loans may be subject to periodic rate adjustments through the life of the loan.

Loan Prepayment

- HUD: Loan is prepayable usually after the fifth year, with minimum prepayment penalties, typically 5% declining 1% per year.
- Conventional: Loan is prepayable; typically with high prepayment penalties via yield maintenance.

Cash Equity

- HUD: Cash equity is 10% on new construction and 15% on purchases. Cash equity can be 0% for refinancing.
- Conventional: Cash equity will be 20% to 35% of loan for new construction and 20% to 25% for acquisitions.

Construction and Permanent Financing

HUD: Construction and permanent financing are arranged simultaneously
Conventional: Construction and permanent financing are typically separate transactions, providing for duplication of fees and interest rate risk.

Interest Rate Risk

HUD: Borrower has no interest rate risk for 35 to 40 years.
Conventional: Borrower has interest rate risk at end of term on balloon note.

Fee Payments

HUD: Fees are paid one time for a 35 to 40-year loan.
Conventional: Borrower may pay both lender's and broker's fees 2 to 3 times over holding period: one for construction, one for permanent and any refinancing will also require additional fees.

Loan Assumability

HUD: Loan is assumable for qualified purchasers.
Conventional: Loan is typically not assumable.

Underwriting Process

HUD: Underwriting process per standardized HUD regulations and timeframes ranging from 60 – 120 days in all 50 states.
Conventional: Underwriting process will vary from lender to lender