



CAMBRIDGE

Realty Capital Companies

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HUD SECTION 223(A)7 FULL INSURANCE PROGRAM FOR THE RE-FINANCING OF EXISTING HUD INSURED MORTGAGES

EXECUTIVE SUMMARY

Cambridge Realty Capital Companies and the Section 223(a)7 Program provide attractive, long-term, fixed rate, nonrecourse financing for the re-financing of existing apartment projects that are currently insured by HUD loans.

Cambridge feels this program has particular relevance for re-financing loans that were insured during the early 1980's when interest rates were at their peak and to fund needed property repairs. A more detailed summary of the program is featured below.

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| LOAN FEATURES | Ability to take advantage of current low interest rates. 35-year maximum term and amortization. No loan-to-value requirement or limitation. Nonrecourse. Fully assumable. Loan proceeds may be used to pay expenses associated with re-financing a property including financing fees, discounts and reserve deposits, and HUD approved repairs. |
| ELIGIBLE PROPERTY | Properties that are eligible are properties that can provide verification of existing insured mortgage and verification of any other second or unsecured debt of the mortgage. |
| MORTGAGE AMOUNT | The maximum mortgage may not exceed the lowest of the following: <ul style="list-style-type: none">· The original principal amount of the existing insured mortgage.· The unpaid balance of the existing insured mortgage amount plus:<ol style="list-style-type: none">1) The cost of required improvements;2) Outstanding debt incurred in connection with capital improvements made to the property which are acceptable; and3) The loan closing charges. |
| UNDERWRITING CRITERIA | Estimates of rent and expenses as will be utilized by HUD for purposes of determining the maximum mortgage shall be made as of HUD's appraisal date. Rent trending to a future date will not be considered in HUD's underwriting. |
| APPRAISAL | HUD will conduct its own appraisal and engineering study. The HUD Application Fee will cover this expense. |

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| TERM | Maximum of 35 years. |
| AMORTIZATION | Maximum 35-year fully amortizing loan. |
| INTEREST RATE | Based on current market conditions. |
| MORTGAGE INSURANCE | Provided by Section 223 of the National Housing Act. |
| FUNDING SOURCE | GNMA Mortgage Backed Securities as guaranteed by FHA mortgage insurance pursuant to Section 223 of the National Housing Act, or by the purchase of the loan by a whole loan investor. Tax-exempt bonds may also be used under Section 223 if the borrower and project are eligible for tax exempt financing. |
| PERSONAL LIABILITY | None. |
| FEES | <ul style="list-style-type: none"> · 0.3% Application Fee used for engineering and appraisal costs and payable by Mortgage Processor. · Up to 2.0% Financing Fee. · Up to 1.5% Loan Placement Fee. |
| DISCOUNTS | Discount points, which can be paid to "buy down" the permanent interest rate, may, in most cases, be included in the loan and counted as legitimate project costs. |
| SECONDARY FINANCING | In certain cases, secondary financing may be permitted by HUD. Secondary financing cannot exceed 7.5% of the project's value. |
| PREPAYMENT | Yes, but with negotiated penalty. |
| REQUIRED ESCROWS | <p><i>Mortgage Insurance Premium</i> In addition, a monthly fee equal to 0.5% per annum will be added to the monthly mortgage payment. (1% per annum on the first loan year.)</p> <p><i>GNMA Indemnification</i> (Not applicable to whole loan financing.) To insure against defaults within the first 3 years of the loan, a 1% cash escrow is required by GNMA. This will be returned after 39 months if the loan is not in default.</p> <p><i>Replacement Reserve</i> In addition, a monthly deposit to a replacement reserve will be required to provide for the future replacement of capital items. This cash reserve will be held by Cambridge in an interest-bearing account and can be drawn on by the borrower for capital improvements. Interest earned on the account benefits the property and can be paid out periodically. Monthly additions to the reserve are also required.</p> <p><i>Real Estate Taxes, Property Insurance, Etc.</i> These escrows will be established at closing and held in a non-interest bearing account by Cambridge. Monthly deposits to the Real Estate Tax and Property Insurance Escrow will be required.</p> |

**OPTIONAL
ESCROWS**

Operating Deficit

A project may be underwritten which may not always be able to carry the new HUD insured mortgage during the first 12 to 18 months of the loan. In this case, the borrower must provide Cambridge with cash or a Letter of Credit issued by a financial institution acceptable to Cambridge to cover the anticipated deficit. This deposit is refunded to the borrower upon 90 days after reaching sustaining occupancy.

Repairs

If repairs or capital improvements are required for the loan and are not completed prior to closing, the cost of these repairs will be held back from the initial loan funding and placed in escrow. In addition, the borrower must provide Cambridge with cash or a Letter of Credit for 50% of the repair amount. The repair escrow will be released when the repairs are completed.

AUDIT

Annual Audits must be filed with HUD.

PRELIMINARY APPLICATION

To assume a prompt initial response, you should provide Cambridge with a preliminary application package that includes the following:

- A brief description of the project.
- A current Rent Roll.
- The sponsor's resume showing expertise in operating the type of housing to be provided.
- Operating statement for the two most recently completed years.
- Copy of the existing HUD Mortgage and Note.
- Copy of any additional or secondary indebtedness.
- The sponsor's unaudited financial statement.

SITE VISIT AND CONFERENCE

If the preliminary application indicates that the project may qualify for a 223(a)7 loan, Cambridge will provide you with a Preliminary Loan *Pro Forma* for your review. If you find our proposal acceptable, we will ask you to authorize Cambridge to proceed with a formal application process with HUD.

FULL APPLICATION

Cambridge will work with you to prepare the full application promptly. The full application will include:

- Application letter.
- Location map showing the site in relation to area features and services.
- A plan and legal description of the property.
- Evidence of satisfactory zoning.
- Evidence of title, option or contract of sale, copy of last arm's length sale, and purchase price.
- Equal employment opportunity and previous participation certificates; affirmative fair housing marketing plan.
- Minority business enterprise certifications from the sponsor, architect, general contractor and management agent.
- Current personal financial statement from the sponsor and general contractor.
- Architectural exhibits including working drawings and trade specifications necessary to bid the project, soil borings, utility analysis and owner/architect agreement.

CONCLUSION

Cambridge will provide the following comprehensive services for your 223(a)7 insured loan:

- Determine within 10 working days of receipt of the preliminary application if your apartment project or retirement service center meets the basic qualifications for 223(a)7 insured financing from Cambridge.
- Conduct the preliminary review, site visit, and conference at no charge.
- Assemble the full application.
- Coordinate the valuation, architectural, cost, mortgage credit, marketing and management reviews while working with you and your development team.
- Coordinate initial and final endorsements.

For questions and additional information, please contact:

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DISCLAIMER: This financing outline is designed to provide immediate information regarding a specific real estate capital structure on the above-captioned transaction utilizing HUD insured financing. It is not a Commitment Letter and is subject to complete review and underwriting by HUD and Cambridge Realty Capital Ltd. of Illinois. The information contained herein is for preliminary review purposes only and is subject to errors, omissions, and changes, all without notice. N:\GoldMine\FaxRush\Outfax\execexisthudrefi.doc
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