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Affordable Housing Alert

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HUD proposes relaxed loan sizing standards for FHA-insured loans

By **Alexander B. Rosso**

HUD recently posted two draft mortgagee letters proposing revised underwriting criteria, which will expand access to FHA-insured financing for both affordable and market-rate multifamily housing. These changes are a strategic response to current real estate and financing conditions, reinforcing FHA's role in promoting housing stability and production.

What's the impact?

- This guidance is not yet in effect and will undergo a mandatory review period before implementation, which is estimated to be completed before the end of 2024, at which time the changes will apply to all FHA-insured projects that have not yet closed.

BACKGROUND

Under HUD's Multifamily Accelerated Processing (MAP) Guide, loan amounts for FHA-insured properties are calculated based on the lesser of a) the requested mortgage amount, b) the amount allowed by statutory limits, c) the amount supportable by debt service, or d) the amount supportable by the applicable loan ratios. The proposed guidance would result in more favorable debt service and loan ratio standards. For properties that HUD considers affordable, which they define as meeting either the minimum affordability requirement for low-income housing tax credits or the requirements for project-based Section 8, the proposed changes are even more favorable.

CHANGES IN DEBT SERVICE COVERAGE RATIOS (DSCR) AND LOAN TO VALUE/LOAN TO COST RATIOS (LTV/LTC)

The first mortgagee letter proposes updates to HUD's underwriting policies to make the financing of both existing and new housing units possible for more properties as follows:

- LTV/LTC for affordable housing on Section 221(d)(4) new construction or substantial rehabilitation and Section 223(f) loans increased from 87% to 90%.
- DSCR for affordable housing on Section 221(d)(4) new construction or substantial rehabilitation and Section 223(f) loans decreased from 1.15 to 1.11.
- LTV/LTC for market rate on Section 221(d)(4) new construction or substantial rehabilitation and Section 223(f) loans increased from 85% to 87%.
- DSCR for market rate on Section 221(d)(4) new construction or substantial rehabilitation and Section 223(f) loans decreased from 1.176 to 1.15.
- Note that there is no change to the LTV/LTC or DSCR criteria for projects with 90% or greater units with rental assistance, which remains at 90% and 1.11, respectively.

CREATING A MIDDLE-INCOME HOUSING OPTION FOR 221(d)(4)

The second mortgagee letter proposes to create a new set of underwriting thresholds for Middle Income Housing, which is defined by HUD as projects with 50% of units targeted at 60%–120% of area median income that are secured by a use restriction that is monitored by a state or local governmental entity, as follows:

- LTV/LTC for Middle Income Housing on Section 221(d)(4) new construction or substantial rehabilitation loans is 90% (increased from 85% under the current guidance).
- DSCR for Middle Income Housing on Section 221(d)(4) new construction or substantial rehabilitation loans is 1.11 (decreased from 1.176 under the current guidance).

Opportunities for owners and developers

Our Affordable Housing Team will continue to track the development and implementation of these proposed changes. We are available to advise how our clients can access these opportunities.

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