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Affordable Housing Alert

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HUD adopts relaxed loan sizing standards for FHA-insured loans

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HUD's revised underwriting criteria will expand access to FHA-insured financing for both affordable and market-rate multifamily housing.

What's the impact?

- These changes are a strategic response to current real estate and financing conditions, reinforcing FHA's role in promoting housing stability and production.
- The changes to the underwriting criteria will apply immediately to all FHA-insured projects that have not yet reached initial endorsement as of publishing.

In October, we published an alert on two draft mortgagee letters proposed by the Department of Housing and Urban Development (HUD) regarding changes to the underwriting standards and guidelines for FHA-insured HUD loans. Now, after a comment period, HUD has revised and, on January 8, 2025, issued final versions of those mortgagee letters, which are substantively the same as the prior drafts.

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. With the new guidance, HUD memorializes more favorable debt service and loan ratio standards for FHA-insured multifamily properties. 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.

Creating a middle-income housing option for 221(d)(4)

The first mortgagee letter creates a new set of underwriting thresholds for Middle Income Housing, which is defined by HUD as projects with 50% of units targeted at up to 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).

Changes in debt service coverage ratios (DSCR) and loan to value/loan to cost ratios (LTV/LTC)

The second mortgagee letter updates 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.

Chapter 3 of the MAP Guide will be revised to incorporate the changes in the two mortgagee letters.

Opportunities for owners and developers

Our Affordable Housing Team will continue to track the development and implementation of these changes. We are available to advise how our clients can access these opportunities. For more information on the content of this alert, please contact your Nixon Peabody attorney or:

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