August 21, 2024

The Honorable Adrianne Todman
Acting Secretary
Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

Dear Acting Secretary Todman:

The undersigned organizations represent FHA multifamily housing providers, lenders, and developers. HUD's multifamily production levels have significantly declined in recent years. Between FY 2022 and FY 2023, volume dropped by 58%. Based on production data through May 2024, MAP loan volume is expected to decrease by an additional 29.75%. While interest rates are certainly a factor, the fees and requirements of FHA multifamily insured loans also play a role. However, there is a simple fix that HUD could make that would immediately increase the production of much-needed rental housing at little to no risk to the FHA fund or the taxpayer.

Housing Notice H 2010-11 titled HUD Multifamily Risk Mitigation ("the Notice") was issued in response to the Great Financial Crisis and revised the underwriting standards for the multifamily programs. Many of the changes instituted by the Notice remain in place today, including enhanced mortgage credit underwriting on principals, higher initial operating deficit escrows, and higher minimum vacancy rates. A number of these now represent standard operating procedures in the lending community. However, two of the changes were in response to financial conditions at the time and were never intended to be permanent. In fact, HUD has rolled them back slightly over the years, but now more action is needed.

The minimum debt service coverage ratio (DSCR) and maximum loan-to-cost percentage (LTC) levels far exceed what is necessary to protect taxpayers. By returning them to the levels that were in place before the Notice, HUD would allow for the underwriting of a multifamily FHA-insured loan to the lesser of 1.11x DSCR or 90% LTC. A review of loans by ten of the most active MAP lenders demonstrated this would create more than 30,000 new units within only three years.

In the current environment, liquidity is restricted with banks much more hesitant to provide construction financing. HUD's role in today's market is more important than ever in creating housing. It is important to note that these changes must apply equally to both affordable and market rate units. A recent study from the Minneapolis Federal Reserve found that "within five years, the aggregated chain of residential moves ultimately results in about 70 new openings for renters in lower-income neighborhoods for every 100 new market-rate apartments."[1] Every new unit provides a home, and the need for affordable rental housing continues to be a challenge in many communities across the nation. A recent study by Up for Growth revealed that there is a shortage of 3.9 million missing homes across the nation[2].

Small program modifications are simply not getting the job done. HUD must make a significant change to stop the downward production trend. We urge you to roll back the DSCR to 1.11x and the LTC to 90%. Doing so will quickly lead to the development of tens of thousands of quality rental homes for American families. If you have any questions or would like to discuss further, please contact Megan Booth at 202 557 2740 or Mbooth@MBA.org.

Sincerely,

Mortgage Bankers Association

National Apartment Association

National Association of Home Builders

National Housing Conference

National Leased Housing Association

National Multifamily Housing Council

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[1] https://www.minneapolisfed.org/article/2024/how-new-apartments-create-opportunities-for-all

[2] https://upforgrowth.org/apply-the-vision/2023-housing-underproduction/