

FHA: A Critically Important Program for Financing Multifamily and Residential Healthcare Properties

It is critical to maintain FHA as an efficient source of financing to support rental apartments and residential healthcare facilities.

BACKGROUND

The U.S. Department of Housing and Urban Development's (HUD's) Federal Housing Administration (FHA) is a vital component of the U.S. housing finance system for rental apartments and residential healthcare facilities. The counter-cyclical role FHA's programs played during the Great Recession and the revenue they produce for the federal government prove how valuable FHA is, particularly during periods of economic distress. FHA can provide needed liquidity and stability to the multifamily and residential healthcare markets. These programs have consistently exhibited strong performance and have experienced very low delinquency rates. As a result, FHA is fulfilling its important and congressionally mandated housing mission while consistently producing revenue for the federal government.

RECOMMENDATIONS

Provide stable and sufficient resources to support affordable rental housing and residential healthcare properties.

HUD has made significant strides over the last several years to address the delays and inconsistencies that FHA lenders and borrowers have experienced in the Multifamily and Healthcare programs. When faced with significant processing delays in 2021, HUD responded by hiring a contractor in December 2021 to help manage the pipeline, which MBA applauds. The MAP queue, as of February 10, 2022, appears to have shrunk to no more than four months in some regions. MBA encourages HUD to continue to take steps to reduce wait times to ensure the effective production of affordable rental housing, for example, by reallocating work across regional offices. Also, to help the industry manage the impacts of the application queue, MBA would also like to see more information shared by HUD about the contractor's capacity and how deals in the queue will be prioritized.

At the Congressional level, we urge Congress to provide HUD with the funding necessary to maintain a staffing and technology infrastructure that is aligned with the volume, complexity, and importance of the FHA multifamily and residential healthcare programs.

Reduce regulatory burdens and programmatic barriers to FHA-insured financing.

MBA encourages HUD to continue the impact analyses of new regulations and policy initiatives, to assess their efficiency, and effectiveness including the following:

- **Choice Limiting Actions.** MBA encourages HUD to reevaluate its decision to impose additional choice-limiting restrictions on HUD’s multifamily mortgage insurance programs, including the Section 223(f) program. MBA our members are working with HUD officials to discover the statutory authority for these restrictions and to . opportunities to streamline the program.
- **Davis-Bacon Wage Rates.** While the \$1 million threshold for split-wage decisions was increased to \$2.5 million in December 2019 (following MBA advocacy), the processes around Davis-Bacon wage rate determinations still can have an unnecessary and substantial adverse impact on new construction and rehabilitation projects. To minimize disruption, MBA recommends that HUD and the Department of Labor (DOL) conform their procedures for applying Davis-Bacon to long-standing prior practice of favoring assigning a single, Residential wage schedule to FHA projects. We also recommend that DOL and HUD update story-height limits on Residential projects and revise procedures for the effective date of periodic updates to Davis-Bacon wage rates. Also, to the extent that DOL or HUD were to determine to apply a \$2.5 million threshold to FHA projects (we believe only the 20 percent threshold should apply), DOL and HUD should update the threshold to reflect the change over time in what would be considered a “very large project.” Because this remains a significant issue for MBA members and industry stakeholders, MBA works closely with its FHA Committee Davis-Bacon working group to support advocacy efforts.
- **HUD Statutory Limits.** An integral part of increasing affordable rental housing supply through FHA programs is having HUD statutory loan limits that are consistent with the current economic environment. Unfortunately, the base allowable statutory loan limits for HUD programs have become out of alignment with multifamily property values, which unnecessarily impairs growth in the supply of affordable housing. The Northeast and West regions are particularly constrained from fully optimizing FHA-insured loan programs due to the impact of the statutory limits. In addition, the current methodology for adjustment does not fully reflect housing construction costs across the country. The statutory limits are set based upon a single, national cost per unit calculation. However, housing prices across the country vary significantly by region and market, and prices change differently across markets and regions from year to year. As a result, over time adjustments based on the nationally based CPI increase have not accurately capture actual increases in costs and prices in many parts of the country. MBA will continue to work with its FHFA Committee Statutory Limit working group to support advocacy efforts.
- **Federal Finance Bank (FFB) Program.** Both MBA and HUD share a goal of addressing the shortage of affordable housing and affordable rental housing. However, MAP lenders are concerned that the reinstated Federal Finance Bank (FFB) program, under which state Housing Finance Agencies can borrow directly from the FFB to fund their lending under HUD’s risk-sharing program, may give state HFAs an unwarranted competitive advantage over MAP lenders. In December 2021, MBA met with HUD officials to discuss six recommendations – including Davis-Bacon wage rates - that would create a level playing field between the FFB and MAP programs. The recommendations were also submitted in writing. In addition, while the FFB program has begun, HUD had previously stated that it would release an FFB program guide, likely for comment, no guide has yet been released. HUD should release the FFB guide for comment as soon as possible and should seriously consider MBA’s recommendations to create a level playing field between HUD’s multifamily lending programs.

- **FHA Private Flood Insurance.** FHA borrowers should be able to satisfy mandatory flood insurance purchase requirements under the National Flood Insurance Act, where applicable, by purchasing private flood insurance. In November 2020, HUD released a notice of proposed rulemaking that would allow FHA borrowers to purchase private flood insurance. The rule, when finalized, would provide a substantial benefit to FHA borrowers by providing them with less costly and in some cases better quality flood insurance. MBA responded in January 2021 offering support for the new rule and recommending that FHA set regulations that are consistent with those of federal regulators. This rule has yet to be finalized over a year later and MBA urges HUD to move forward with the proposal.

Continue to strengthen the LIHTC Program.

LIHTC is our nation's most successful tool for encouraging private investment in affordable rental housing. It has financed nearly 3.6 million homes for low-income families and individuals nationwide since 1986. To that end, MBA supports and encourages efforts to strengthen the LIHTC program by simplifying and streamlining program requirements, preserving existing affordable housing, and enabling the development of innovative, affordable housing solutions, particularly in underserved and rural low-income markets, including clarifying acceptable income averaging in LIHTC projects and allowing HUD approved LIHTC Pilot Lenders to participate in risk sharing much like state housing finance agencies.

Hiring and Training of FHA staff and promotion of consistency across the regions is critical to successfully increasing affordable rental and residential healthcare supply.

Adequate staff and expertise are necessary to meet the rising demand for affordable housing and residential healthcare facilities. Also, consistency in how the regions provide decisioning and guidance will reduce friction and delays in the production and asset management processes. Last year was a record year for the HUD MAP program and MBA recognizes the hard work of the HUD staff to handle this incredible volume. With increased volume comes an even greater need for more resources, process efficiencies, improved technology and elimination of inconsistencies. In the long term, MBA urges HUD to utilize a balance of permanent and contracted resources. This would include hiring, training and retaining critical HUD staff across the regions, complemented by IT enhancements, together with the flexible use of contracted service providers to manage unexpected or peak demand. MBA will continue to work with its members and HUD to help strengthen the FHA Multifamily and Healthcare Programs.

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