



Issue Fact Sheet

NMHC/NAA Joint Legislative Program • Suite 540 • 1850 M Street, NW • Washington, DC 20036 • (202) 974-2300 • Fax (202) 775-0112 • www.nmhc.org

FEDERAL HOUSING ADMINISTRATION MULTIFAMILY PROGRAMS

Background

Since the great financial crisis of 2008, virtually all private sources of capital (banks, insurance companies, pension funds and Wall Street) have been sidelined. Fortunately, the Federal Housing Administration (FHA) has stepped in to fill some of that financing gap.

FHA-insured loans are the primary source of construction financing and higher-leverage long-term mortgage financing for multifamily developers and owners. Even as private capital sources are slowly returning to the market, demand for mortgage insurance from the FHA multifamily programs will remain high, especially as banks continue to offer limited to no construction lending.

FHA is struggling to deal with the nearly overwhelming increase in volume, however, and is changing its loan policies and procedures in response. In 2010, FHA implemented the biggest changes in its multifamily underwriting criteria in decades. Among other things, it raised debt service coverage ratios, lowered loan-to-value and loan-to-cost ratios, increased project reserves and sponsor equity investment and limited sponsor cash out. It also increased documentation on property and borrower history and creditworthiness.

FHA is also implementing new policy and procedures to process applications, involving new centralized loan committees, removing delegation from field offices and instituting new risk-management oversight practices. There are also reports that they are re-negotiating transactions and exploring additional recourse provisions.

The combined impact of these changes is to create bottlenecks that are resulting in significant delays in approving multifamily mortgage insurance applications. This tightening of FHA-provided capital comes at a time when America is increasingly relying on rental apartments to house our citizens. The largest generation of children currently under the age of 20 in the history of the U.S. will be entering the housing market in the next few years, and the number of seniors who can no longer maintain a house will begin to skyrocket. In addition, the foreclosure crisis has increased the demand for affordable rental housing.

NMHC/NAA Position

NMHC/NAA support prudent risk management practices by FHA to ensure the viability of the Agency and to protect the taxpayer. However, FHA should work with its lending partners to ensure that it can adequately respond to the increased demand for FHA insurance. It should also continue to look for ways to make the FHA more responsive and flexible. Lawmakers should also ensure that the FHA has sufficient credit authority to support the apartment industry's construction capital needs.

Current Status

NMHC/NAA and a small coalition of industry representatives have had several meetings with HUD Secretary Shaun Donovan and key HUD staff to address the delays and are continuing to work with them to identify solutions that can accelerate application processing. FHA has temporarily reallocated staff to offices with the greatest demand, and they have established an improved application monitoring system to better assess and address their loan application pipeline. They are also considering expanding their communications to new and existing applicants to better manage expectations given the backlog. Without adequate resources, however, FHA is unlikely to find any material fixes to its problems.

On May 24, The Insurance, Housing and Community Opportunity Subcommittee of the House Financial Services Committee held a hearing on the FHA single-family and multifamily programs in advance of considering FHA legislation. NMHC/NAA testified at the hearing and told lawmakers that HUD's failure to keep pace with the volume of multifamily mortgage applications is exacerbating the nation's shortage of workforce housing, jeopardizing the thousands of jobs created by new apartment construction and reducing the new revenues the program could be generating for the federal government.

NMHC/NAA Contact

David Cardwell
Vice President of Capital Markets and Technology
NMHC/NAA Joint Legislative Program
202/974-2336
dcardwell@nmhc.org

Last Updated: June 2011