U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

**DATE: January 8, 2025**

**MORTGAGEE LETTER 2025 -2**

**TO:** **All FHA-Approved Multifamily Mortgagees**

**SUBJECT:** **Creating a Middle Income Housing option for 221(d)(4)**

## I. Purpose

This Mortgagee Letter (ML) proposes to create a new set of underwriting thresholds for Middle Income Housing as part of the Federal Housing Administration's (FHA's) Multifamily Housing Programs' underwriting standards and guidelines. It is not applicable to the health care programs administered by the Office of Healthcare Programs (Section 232 or refinancing of Section 232 pursuant to Sections 223 (f) or 223 (a) (7)), nor does it apply to Risk Share (542) loans.

These changes are in response to current real estate and financing markets and are intended to stimulate housing production as part of FHA's countercyclical role while ensuring the continued availability and stability of FHA insurance.

## II. Background

Many households with incomes above levels usually targeted and defined as affordable (i.e., LIHTC, Section 8, etc.) lack available housing that is affordable to them. Defining this Middle Income Housing segment can help investors, lenders, governments, and other stakeholders target their activities to these challenges. Unfortunately, there is no widely accepted or clear definition of Middle Income Housing across the industry. Various industry reports, trade organizations and governmental bodies each define Middle Income Housing somewhat differently, usually as housing that is affordable to individuals and families earning from 60% to 120% of Area Median Income (AMI). However, in some high-cost communities, households with incomes as high as 150% of AMI struggle to find housing.

As part of the Biden-Harris Administration's commitment to create additional housing, both affordable and market rate, FHA is introducing specific policy changes to support expansion of Middle Income Housing. These changes respond to market need using the existing FHA 221(d)(4) loan program.

By changing the underwriting requirements, the ML enables more projects to qualify for FHA financing, which is less expensive than private financing. That in turn makes more of these projects economically feasible, which should lead to more housing being produced and therefore available and affordable to the segment of renters. Additionally, by aligning the middle income ML with state and local initiatives, we ensure that the projects are meeting an identified local need.

## III. Proposed Debt Service Coverage Ratios and Loan to Cost Ratios

Under the provision of the Multifamily Accelerated Processing Guide (MAP Guide) Loan amounts are 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. To accomplish the goal of providing more housing units into the market, HUD has revised its underwriting criteria. The current and new debt service coverage ratios (DSCR) and loan to costs ratios (LTC) are listed in the table below:

| | **Criteria 3 (Loan to Value/Loan to Cost)** | | **Criteria 5 (Debt Service Coverage)** | | |
|---|---|---|---|---|---|
| | Current | New LTC | Current | New DSCR | Vacancy Factor |
| **Middle Income Housing (50% of Units Targeted for Tenant Income Levels Up To 120% AMI) – No Rent Advantage** | | | | | |
| 221(d)(4) NC/SR | 85% | 90% | 1.176 | 1.11 | 7% |

All targeted units must be secured by a use restriction and must be monitored by a state or local government entity annually. A minimum use restriction period of 10 years is required to ensure that middle income tenants benefit from this policy. However, because individual state and local programs vary widely, Regional Center Directors have waiver authority under MAP Guide 11.3.5.B to approve a term of less than 10 years when enhanced benefits to middle income tenants exist (ex. the proposed use restriction is less than 10 years, but targeted units exceed the 50% minimum.) In no case, however, should the use restriction agreement be less than 5 years.

## IV. Implementation

Changes will be implemented immediately for any application that has not reached initial endorsement. This Mortgagee Letter is effective immediately and remains effective until amended, superseded, or rescinded. MAP Guide Chapter 3 will be revised to incorporate the changes specified in this Mortgagee Letter. Additionally, related MAP Guide cross references will be revised for consistency with the revisions. For questions about this Mortgagee Letter, please contact Margaret Lawrence, Deputy Director, Office of Multifamily Production at margaret.a.lawrence@hud.gov.

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Julia R. Gordon, Assistant Secretary for Housing—
Federal Housing Commissioner