OFFICE OF HOUSING

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

MORTGAGEE LETTER 2026 –13

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

SUBJECT: **Implementation of the Low-Income Housing Tax Credit (LIHTC) Express Lane Initiative for Multifamily Section 221(d)(4) New Construction Loans**

I. Purpose

This Mortgagee Letter introduces the Low-Income Housing Tax Credit (LIHTC) Express Lane Initiative, a new streamlined process for FHA-insured construction loan financing for LIHTC transactions. This Initiative aims to make FHA financing more efficient by reducing processing times for highly experienced and capable LIHTC developers.

II. Background

HUD is committed to removing barriers to construction of affordable housing, consistent with President Trump's March 13, 2026, Executive Order 14394, titled "Removing Regulatory Barriers To Affordable Home Construction". The LIHTC Express Lane is designed as a processing initiative to test streamlining efforts with experienced development partners, allowing HUD to gather feedback and inform future process improvements without introducing significant risk.

This Initiative builds upon lessons learned from previous pilot programs and incorporates feedback from industry stakeholders. It recognizes that experienced LIHTC developers, syndicators, and lenders conduct thorough due diligence, particularly regarding expenses and net operating income (NOI), often with more conservative underwriting than HUD. By leveraging the expertise of these partners, HUD can confidently streamline its review process without elevating risk. While the LIHTC 221(d)(4) Pilot remains in effect, this Express Lane Initiative is intended for a different cohort of eligible projects, focused on new construction. The LIHTC industry is dynamic, and this Initiative reflects HUD's commitment to adapting its processes to accommodate new and evolving financing structures. Specifically, the LIHTC Express Lane modifies several policies from the previous 2019 LIHTC Pilot program to accommodate more new construction projects in this expedited process, as follows:

- The maximum project size limit of fewer than 200 units has been eliminated.

- The Initiative now includes new construction of 4% LIHTC transactions with tax-exempt bonds, which were previously not eligible.

- The maximum Loan-to-Cost ("LTC") of 65%-75% is also eliminated, reverting to the standard 80% LTC allowed under the Housing and Economic Recovery Act (HERA).

- The requirement for a deferred developer fee of at least 25% has been removed, as HUD acknowledges there are sufficient economic incentives from LIHTC investors to secure developer commitment.

- Early submission of deliverables before application has been streamlined and limited only to the environmental factors detailed below in Section III.A, related to Tribal, State Historic Preservation Officers (SHPO), endangered species consultation and the 8-step floodplain/wetland decision making process.

- The 30-day firm commitment decision timeline is maintained and reemphasized as internal HUD processes have been eliminated or reduced in scope.

- Eligibility limitations for environmental risk factors have been reduced to two environmental compliance factors.

III. LIHTC Express Lane Initiative

The LIHTC Express Lane Initiative maintains HUD's loan sizing and underwriting standards as required by the MAP Guide. It strives to maintain insurance risk neutrality by using standard Section 221(d)(4) underwriting thresholds, such as Loan-to-Cost (LTC), Debt Service Coverage Ratios (DSCR), and standard NOI calculations. Thus, the focus is exclusively on expediting the underwriting review and closing process for qualifying transactions.

A. Eligibility Requirements

Participation in the LIHTC Express Lane is limited to transactions and development teams that meet specific criteria, to HUD's determination and satisfaction, ensuring that the streamlined process is applied to low-risk, high-capacity partners.

Eligible Projects

Project eligibility is limited to new construction projects insured under Section 221(d)(4). These projects must have LIHTC-restricted rents but cannot include HUD Multifamily Section 8 Project-Based rental assistance because the time involved in determining Section 8 rents is not congruent with an expedited review. Both 4% LIHTC transactions with tax-exempt bonds and 9% LIHTC transactions are eligible. There are no limitations on loan size or the number of units.

Existing HUD Borrowers Submitting Under Prior Credit Approval

Borrowers submitting under prior credit approval, who are active in LIHTC transactions, are deemed by HUD to be eligible for participation in the LIHTC Express Lane. Such borrowers

have already been reviewed as acceptable low-risk, high-capacity partners with established track records.

Development Team

The development team must be managed and controlled by an experienced LIHTC developer/owner with a demonstrated ability to successfully execute complex transactions through the development, construction, lease-up, and operating phases. While vertically integrated companies are common, they are not a requirement. Prior HUD experience is a strong qualification, but not a requirement.

Developer/Owner principals must have successfully developed, placed in service, and stabilized at least three LIHTC transactions within the past five years, with at least one being comparable to the proposed project in size and scope. They must also exhibit financial strength, stability, and adequate liquidity to meet all obligations at the time of application review. Developers with limited working capital and liquidity, relying on future developer fee revenue from in-process transactions, are not eligible for participation. Developers must be able to meet the liquidity and guarantee obligations imposed by the tax credit investor at the industry standard of $1 million liquidity and $5 million net worth through the financial strength of the active entity and individual principals alone, without relying on third party guarantors. A review of their real estate owned portfolio must evidence stability and minimal risk, with stabilized LIHTC portfolio debt service coverage ratios above 1.15, LIHTC portfolio occupancy above 93%, and a limited number of individual transactions below those operating metrics.

The Lender must detail the developer’s plan and timeline to stabilize any outlying transactions exhibiting stress in the portfolio. If the development team has previous participation in HUD programs, a positive previous participation record with HUD is required, evidenced by no Tier 1 or 2 flags, Real Estate Assessment Center (REAC) scores above 80, and positive Management and Occupancy Reviews (MORs). HUD retains discretion to consider outliers on a case-by-case basis.

General Contractor

The general contractor must possess a strong track record with Section 221(d)(4) financed projects and LIHTC-subsidized transactions, evidenced by completing at least five such projects in the past ten years at the time of application review. Experience within the subject property's locality and experience working on prior transactions with the development team for the subject transaction are strengths, but not requirements. The contractor must have comparable experience with the project's size and scope and demonstrate strong financial capacity, evidenced by a working capital position in excess of HUD’s 5% standard without hypothecation of assets or equity infusions from a parent company or principal. Finally, considerable experience with Davis-Bacon wage requirements is mandatory, evidenced by

completing at least five projects subject to Davis-Bacon in the past ten years at the time of application review.

Architect
The architect for the project must have design and supervisory experience for transactions of comparable size and complexity. They are also required to have prior experience preparing the necessary construction documents for a MAP Lender and HUD review in Section 221(d)(4) transactions, designing and supervising construction on five such projects in the past ten years at the time of application review.

Management Agent
The management agent must have strong experience currently operating at least five projects in compliance with LIHTC. Prior HUD experience strengthens the transaction but is not required. The agent's portfolio must show experience with the regulatory complexity and characteristics of the proposed transaction. The company must be currently active in managing affordable properties, and this experience must be at the company level, not solely based on recent hires' experience gained at other firms.

Environmental Risk Factors
Projects involving certain environmental risk factors that will require extensive analysis and consideration by HUD are not eligible for the LIHTC Express Lane but may be submitted under the standard approval process. Such risk factors include, but are not limited to:

1. Noise measurement above 75 decibels (dB).

2. Contamination exceeding unrestricted residential levels without a remediation plan approved by the appropriate regulatory authority.

To accelerate environmental compliance processing, lenders must provide the following documentation prior to application submission following the Concept Meeting:

1. Project information to inform HUD's Tribal consultation, including all information required in Section 9.6.4.I.2.a of the MAP Guide.

2. Project information to inform lender-initiated historic preservation consultation with SHPOs utilizing authority established in the Section 106 Authorization. Lenders must utilize this authorization to directly initiate Section 106 consultation following the Concept Meeting.

3. An initial public notice for the 8-step decision making process for floodplains or wetlands, as applicable, including all project information required at 24 CFR 55.20(b)(3).

4. Project information to inform endangered species consultation with the Fish and Wildlife Service and National Marine Fisheries Service, as applicable, including all information required in Section 9.6.14.D. of the MAP Guide.

Lenders must provide the following documentation with firm application submission, as applicable:

1. A mitigation plan to address acceptable separation distance (ASD) risks from adjacent Above Ground Storage Tanks (ASTs) subject to HUD's regulations at 24 CFR Part 51 Subpart C.

2. A mitigation plan to address noise levels between 65 and 75 dB.

Based on the environmental review and analysis submitted with the application, HUD staff may determine that the standard approval process is appropriate where there are environmental risk factors that require extended consultation, analysis, mitigation, or other delays. HUD notes that the environmental risk factors associated with LIHTC Express Lane eligibility are subject to change if environmental regulations are revised or eliminated via agency rulemaking.

B. Process Improvements

This Initiative introduces several new process improvements to further expedite FHA-insured financing for eligible LIHTC projects:

- Concept Meetings are required; however Express Lane projects will receive priority scheduling. Lenders are encouraged to discuss a proposed Express Lane transaction with the Regional Production Division Director prior to submission of a Concept package.

- HUD's tax credit equity pay-in requirement will be limited to 10% at Initial Endorsement, allowing developers and investors to structure the remaining equity pay-in for maximum efficiency.

- Lenders may provide a draft Firm Commitment with Exhibit B sample special conditions for LIHTC projects. See attached *Additional Conditions Sample Language*.

- The submission of final plans, specs, and third-party Architecture, Engineering, and Cost (AEC) reports will be aligned with the timing of the final AEC reviews of the other funding sources within the transaction and submitted to HUD at least 15 days prior to closing rather than during application review process prior to firm commitment.

- An Economic Market Analysis Division (EMAD) review is not required unless requested by a Regional Production Division Director.

- HUD staff will use an abbreviated template for loan committee narratives.

- Eligible transactions will follow standard loan committee reviews based on mortgage amount.

- To avoid closing delays, lenders can now provide complex structuring documentation for legal review during the application process, i.e., trust indenture, note, organizational documents, ground lease, title, and subordinate financing. Pursuant to MAP Guide 19.1.2.2, the Regional Production Division Director may request legal assistance and consultation from HUD's Office of General Counsel to reduce impediments to, or delays in closing after the Firm Commitment is issued.

IV. LIHTC Insurance Upon Completion Option

The MAP Guide provides extensive guidance for processing Section 221(d)(4) transactions under the Insurance Upon Completion (IUC) option. Under this election, FHA mortgage insurance is provided after project completion and issuance of Certificates of Occupancy for all units. This is distinct in that IUC advances (draws) are not FHA insured and, therefore, HUD has no risk exposure until final endorsement. Under this Mortgagee Letter, HUD will provide maximum practical latitude during the underwriting process to encourage and streamline the IUC option, while controlling risk to HUD.

V. Implementation

This Mortgagee Letter is effective immediately and remains effective until amended, superseded, or rescinded. 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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Joseph M. Gormley
Performing the delegable duties of the Assistant Secretary for Housing – FHA Commissioner

Attachment: Additional Conditions Sample Language

LIHTC ADDITIONAL CONDITIONS
New Construction LIHTC Express Lane

{Sample Language}

Secondary Financing. {For each source of Secondary Financing, insert name of source, amount, interest rate, secured or unsecured, repayment terms, maturity date, financing instruments.}

Lender (1)
Amount $
Interest Rate
Secured or Unsecured
Repayment Terms
Maturity Date
Financing Instrument (i.e., Surplus Cash Note, Mortgage, Deed of Trust, etc.)

This Commitment is conditioned on the availability of the Secondary Financing described above. All Secondary Financing documents to which either the Borrower or Controlling Participants (as that term is defined in 24 CFR part 200) are a party (other than any other note and security instrument insured by HUD), and any related land use restrictions, must be approved by HUD prior to the date of Initial Endorsement, and must comply with HUD's legal and administrative secondary financing requirements, and all related HUD closing forms.

Land Use Restriction Agreements (LURA) and Other Restrictive Covenants.

The following requirements concerning the Project's use or operations have been underwritten and approved: **[List all restrictive documents that have been or will be recorded against the Project relating to the use and operation of the project; insert name of entity or program; briefly describe the use restriction, e.g., occupancy, affordability (rent and/or income), and provide the duration of the use restriction.]**

{examples}

1. Federal LIHTC issued by _____
2. State LIHTC issued by _____
3. City of _____ Use Agreement

Documents described above and/or any other documents restricting the Project's use or operation **("Restrictive Covenants")**, must be submitted to the HUD closing attorney for review fifteen (15) days prior to Initial Endorsement (or such longer time as may be needed) to accomplish any necessary revisions to the Restrictive Covenants. Borrowers and Lenders understand and agree as

a condition of this Commitment that HUD will not approve Restrictive Covenants or terms that deviate from terms previously agreed to by HUD or which conflict with Program Obligations or Federal law.

Restrictive Covenants in the form of land use restriction agreements **("LURAs")** or similar instruments typically required for tax-credit, tax-exempt bond financing, or other affordable housing financing, must incorporate the rider set forth in the Closing Guide, Chapter 19 the MAP Guide. HUD may require the incorporation of the rider with other Restrictive Covenant instruments, as well as subordination or other amendments and modifications, if deemed necessary to ensure the Project's consistency with underwriting and compliance with Program Obligations. The rider must be submitted to the HUD closing attorney pursuant to the timeframe established in the preceding paragraph for Restrictive Covenants.

Tax Credit Equity. (Equity Disbursement Schedule is attached as a specific exhibit.)

This Commitment is conditioned on the availability of the Tax Credit Equity contribution described above, and the equity contribution schedule provided with the firm commitment application and approved by HUD, attached as **Exhibit G**. The initial equity investment amount is $ (10% of Tax Credit Equity). This amount must be reflected on the initial requisition, form HUD-92403, Application for Insurance of Advance of Mortgage Proceeds, for immediate disbursement at Initial Endorsement.

Lender must submit satisfactory evidence of an agreement that binds the tax credit investors to timely and periodically pay to the Borrower entity the Tax Credit Equity to contribute to Project completion costs, in the aggregate amounts set forth in form HUD-2880 and HUD-92013.

All Tax Credit Equity documents to which either the Borrower or Controlling Participants are a party, and any related land use restrictions, must be approved by HUD prior to the date of Initial Endorsement, and must comply with HUD's legal and administrative tax credit equity requirements, and all related HUD closing forms.

In addition to the standard provisions that must be included in the organizational documents for the Borrower entity, a provision must be added that prohibits any changes to the organizational documents that affect the obligations of the tax credit investor without written consent of the Lender and HUD.

{The following additional Tax Credit Equity condition applies to transactions with master lease structures to facilitate Historic or New Market Tax Credits.}

A master lease structure has been approved for this Loan transaction to facilitate [Historic Tax Credits] [New Market Tax Credits]. The Borrower and Master Tenant **[insert name of master tenant]**, along with the following (residential and/or commercial) master sub-lessees **[insert names of master sub-lessee 1, master sub-lessee 2, etc.]** must execute separate Regulatory Agreements with the appropriate HUD Rider. The Riders can be found at the following link - https://portal.hud.gov/hudportal/HUD?src=/program_offices/general_counsel/mffaqs.
{HUD staff must also insert here the required special conditions for master lease transactions from MAP Guide Ch. 16.4.A.}

Cost Certification Exemption. {LIHTC Projects, MAP Guide Chapter 13.4}

The Project is exempt from providing Cost Certification pursuant to Program Obligations. As an additional condition of this Commitment, when the Project reaches substantial completion, as determined by the HUD Inspector, the Lender will be notified of the substantial completion date, and the Borrower must account for all operating income during construction and ending three months prior to the originally scheduled date of the first principal payment under the Secured Instrument. An operating (or income and expense) statement must be submitted covering the period from first occupancy (if occupancy occurred during construction) or from the date of substantial completion (as determined by HUD) through the period ending three months before the date of the first principal payment as originally scheduled. The Borrower may include in the operating statement all soft costs incurred up to 60 days beyond this date, which will establish the cut-off date. The statement must be submitted to HUD at least 30 days before the date scheduled for Final Endorsement. If the operating statement evidences receipt of net operating income during this period, the Borrower may be required to allocate the income received during this period in accordance with current Cost Certification guidance.

Additional Lender Certification. {Tax Exempt Bonds & 4% LIHTC Projects, MAP Guide Chapter 14.19.F}

In transactions involving short-term, tax-exempt bonds secured with cash collateral, in order to qualify for 4% Low Income Housing Tax Credits, in combination with Ginnie Mae securities, the bond documents must comply with, and the FHA lender must provide before Initial Endorsement, the "Lender Certification for Tax Exempt Bonds and 4% Low Income Housing Tax Credit Transactions".

Bridge Loan. {Insert: amount, interest rate, repayment terms, maturity date, financing instrument(s), name of maker on the loan.}

This Commitment is conditioned on the availability of the Bridge Loan described above. All Bridge Loan documents to which either the Borrower or Controlling Participants are a party, and any related land use restrictions, must be approved by HUD prior to the date of Initial Endorsement, and must comply with HUD's legal and administrative secondary financing and bridge loan requirements, and all related HUD closing forms.

Deferred Drawings and Specifications – LIHTC Projects and Certain Eligible Borrowers. {MAP Guide, Chapter 5.6.E}

This Commitment has been issued based upon preliminary drawings, instead of the final drawings, specifications and cost estimates. At least 15 days prior to the target date for Initial Endorsement, HUD must receive the final drawings, specifications and the Lender's

architectural/cost review report for review and approval to ensure consistency of design and cost. The plans and a complete specifications manual must be submitted to the assigned HUD Closing Coordinator with a copy to the HUD Underwriter for review and approval 15 days prior to the anticipated closing date. It is the Lender’s and General Contractor’s responsibility to incorporate the most current Davis-Bacon Wage Rates into the appropriate documents.