



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

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MORTGAGEE LETTER

TO: All FHA-Approved Multifamily Mortgagees

SUBJECT: Multifamily Improvements for MAP Efficiency

I. Purpose

To improve efficiency and align with current industry standards, the Federal Housing Administration (FHA) is revising certain underwriting guidelines in the Multifamily Accelerated Processing (MAP) Guide. This update streamlines the underwriting process, provides greater latitude to the use of certain third-party reports, modernizes calculations and methodologies, and reduces costs, all while protecting taxpayer dollars and the FHA insurance fund.

II. Background

Following the 2008 economic crisis, the Department of Housing and Urban Development (HUD) instituted a rigorous risk mitigation approach within its multifamily loan programs. The 2021 MAP Guide revision reflects over a decade's worth of accumulated risk-centric underwriting standards. While these enhanced standards provided assurance to HUD and mortgage investors during the post-crisis era, the favorable multifamily market conditions warrant a more balanced underwriting process that achieves multiple goals such as risk management, streamlined processing, and cost efficiency.

HUD's underwriting shift to a more comprehensive, single-underwriter decision-making process is of paramount importance in aligning the FHA mortgage insurance platform with industry standards. While HUD recognizes there is still a need for more stringent underwriting efforts for transactions that present higher levels of risk, these proceeding policy modifications delegate more decision-making authority to regional management who have discretion to require a more in-depth review and analysis in underwriting a particular application.

III. Federal Register Notices Updating MAP Guide Policies

Federal Register Notice FR-6522-N-02 Changes in Mortgage Insurance Premiums Applicable to FHA Multifamily Insurance Programs

On September 23, 2025, HUD published a Final Notice that reduced MIP rates to 0.25% for all multifamily housing programs. MIP rate changes are applicable to FHA multifamily mortgage insurance applications submitted or amended on or after that date, so long as the loan has not been initially endorsed.

Additionally, by that notice, HUD eliminated the Green and Energy Efficient Housing, Affordable, and Broadly Affordable MIP rate categories. Elimination of these three MIP categories also eliminates their respective specialized requirements as outlined in the 2016 notice. The overlay requirements pertaining to the 5% loan fee limitations for the Green and Energy Efficient Housing and Broadly Affordable categories are eliminated and standard HUD program handbook requirements apply to new loan fees, primarily the Multifamily Accelerated Processing Guide (“MAP Guide”, HUD Handbook 4430.G). Additionally, for all loans closed under a Green and Energy Efficient Housing MIP rate, all green-related requirements, including evidence of the initial green building achievement, the annual reporting of energy performance, and executed regulatory rider pertaining to green requirements, are fully eliminated and are no longer of force and effect.

The MAP Guide will be updated accordingly to align with the Final Notice.

IV. Underwriting Process and Standards Updating the MAP Guide and HUD Forms

Where these (*) policy modifications delegate decision-making authority to the Regional Production Director, the Lender must include the specific request and justification in the Executive Summary section of the lender’s underwriting narrative for consideration.

Chapter 3

3.1.4; 3.1.11; 3.7.23.1; 11.1; 13.14.8; Discount Fees

Discount Fees may be included within Lender Fees up to a maximum combined fee for financing, placement and discount up to a total of 3.5% (while an additional 2% is allowed for bond financing up to 5.5%).

The MAP Guide has several citations regarding Discount Fees that are hereby modified to allow a reasonable discount fee as mortgageable for all Sections of the Act, except Section 223(a)(7)).

Discount fees must be within the maximum 3.5% lender financing and placement fees. Any portion of the discount fee exceeding the 3.5% Lender Fee is not mortgageable and must be paid from borrower's non-mortgageable/non-project funds. For example:

MAP Guide 3.1.4 Interest Rate is amended to read:

Payment of discounts by the mortgagor to buy down an interest rate is acceptable during negotiations, prior to Initial Endorsement. The mortgageable amount must be within the lender's maximum fees per MAP Guide 3.1.11.

MAP Guide 3.1.11.A. Lender Fees and Charges is amended to read:

For programs other than Section 223(a)(7), the maximum financing and placement fees the Lender may charge is limited to a total of 3.5% of the mortgage amount. This 3.5% maximum may consist of any combination of origination, financing, permanent placement, and discount fees, as long as it also includes the Lender's legal fee. In bond transactions, financing and placement fees up to 5.5% are permissible, as long as it is clear the discount is within the base 3.5% lender fee.

Other sections will be modified similar to the above language.

3.1.11: Lender Fees and Charges for Small Loans

Small balance loans gain a 1% percentage point fee increase to provide more reasonable dollar compensation for this loan segment.

As an incentive to consider smaller projects that will benefit from HUD's insured financing, the MAP Guide will be amended to increase the Lender's maximum financing and placement fee for mortgages up to \$2 million from 3.5% to 4.5%. This does not apply to Section 223(a)(7). Bond transactions are capped at 6.5%.

3.1.35: Waivers

Lenders need to make every effort to submit waiver requests with the firm application package and not after issuance of a firm commitment.

MAP Guide 3.1.35.A gives discretion to Regional Center Directors to waive certain provisions of the MAP Guide except where statutory and regulatory requirements exist, or for subject matters retained by Multifamily HUD Headquarters. While HUD may consider waiver requests within delegated authority, they will not be approved except for good cause, and Lenders should not assume approval. Likewise, if a waiver is not considered during

application processing, lenders should assume disapproval unless the lender can show a change in circumstance that prevented the waiver from consideration during HUD underwriting. All waivers must be approved in writing by HUD.

3.1.36: Opportunity Zones (Reduced Application Fees)

Clarifies reduced fee will still apply for OZ projects previously classified as “Broadly Affordable” for MIP purposes.

HUD provides various incentives to support FHA multifamily financing in Opportunity Zones (OZ). Investment in OZ for multifamily projects can provide significant tax savings and increase housing supply. HUD has worked to ensure that FHA multifamily financing is fully compatible by providing OZ specific underwriting standards in the MAP Guide. Three specific incentives include a reduced application fee, a designated, specialized Senior Underwriter in each region of the country to process OZ applications, and automatic qualification for Section 220 mortgage insurance. This ensures a low cost, expert and expedient review of these applications by FHA underwriters.

With the standardization of Mortgage Insurance Premiums, the term “Broadly Affordable” was eliminated. HUD’s fee reduction for OZ properties that would have been deemed “Broadly Affordable” remains in effect.

MAP Guide 3.1.36.A permits a reduction in the Application Fees (also known as “exam” fees”) for properties located within an Opportunity Zone. Application fees are reduced from 0.3% of mortgage amount to 0.2% except for properties which are Broadly Affordable in which cases the application fee is reduced to 0.1% of mortgage amount. With the publication of Federal Register Notice dated September 23, 2025, that streamlines MIP for all FHA applications, the Term “Broadly Affordable” is no longer applicable. HUD will continue to allow reductions in the Application Fee as follows:

To qualify for the 0.1% reduced fee, the property must have Section 8 assistance or another recorded affordability restriction, and/or Low Income Housing Tax Credits. These projects must have either:

- a. At least 90 percent of units covered by a Section 8 Project Based Rental Assistance (PBRA) contract or other federal rental assistance program contract serving very low income residents, with a remaining term of at least 15 years; or
- b. At least 90 percent of its units are covered by an affordability use restriction under the Low Income Housing Tax Credit program or similar state or locally

sponsored program, with achievable and underwritten tax credit rents at least 10 percent below comparable market rents, and with a recorded regulatory agreement in effect for at least 15 years after final endorsement and monitored by a public entity.

3.2.10: Working Capital and Construction Contingency for New Construction Projects

To align with industry standards, reduce the non-mortgageable working capital escrow for new construction transactions from 4% to 2% and add a mortgageable Construction Contingency of 2-5%. Contingency was formally half of the owner-funded working capital deposit and will now be added to the Total Estimated Development Cost, which is mortgageable.

HUD currently requires the borrower to provide a working capital account for new construction with 4% of the mortgage amount escrowed either in cash or with a letter of credit. This account is subdivided with 2% allocated for accruals of taxes, insurance, and interest above the amounts allocated in the mortgage (Working Capital) and 2% for construction contingency (Contingency) for cost overruns, change orders, and other miscellaneous expenses. No portion of this working capital account is currently mortgageable for FHA-insurance. HUD does allow a Contingency reserve in the development cost calculation for substantial rehabilitation projects that is mortgageable. Sub-rehab Contingency ranges from 10% to 15% of the subtotal for land improvements, total structures and general requirements, depending on complexity of the transaction.

In conventional lending, new construction financing terms (including LIHTC) usually require Contingency which is mortgageable since change orders are commonplace with the majority of new construction projects. To better align with industry standards, HUD is eliminating the escrow for Contingency and adding it to the Total Estimated Development Cost, which is mortgageable. The Working Capital escrow of 2% of the mortgage amount is still required.

Construction contingency must range from 2% to 5% as determined by the Borrower and General Contractor based on the complexity of the project and included on form HUD-92264, Line 71. The categories for calculating Contingency is changed for substantial rehabilitation transactions to be consistent with this standard for new construction transactions. The Contingency percentage range for substantial rehabilitation remains from 10% to 15%. The Contingency percentage will be calculated on the sum of the following categories on form HUD-92264:

Line G 36c	Total Land Improvements
Line G 41	Total Structures
Line G 42	General Requirements
Line G 43	Builder's General Overhead
Line G 44	Builder's Profit

Construction Contingency is only available for cost overruns, change orders, and other miscellaneous direct construction expenses during the construction phase. Unused Contingency funds may be used after issuance of the Final Trip Report, form HUD-95379. Unused Contingency funds may be deposited into the reserve for replacement account, applied to pay down the mortgage, or do further improvements, betterments or upgrades to the property. In the case of LIHTC, Contingency not used for repairs, betterments, or deposits to reserve for replacement may be used to pay the Developer Fee (deferred or otherwise) or any other HUD-approved project-related expenses (e.g., relocation costs) or mortgageable reimbursement items.

See also MAP Guide sections 5.14.2; 8.13; 8.14.5; 12.8.1; 14.10.

3.7.1: Deferred Critical Repairs*

The process for HUD's approval of a deferment of critical-accessibility repairs until after endorsement is streamlined without the need for a HUD-2 Waiver.

MAP Guide 3.7.1 states: *"HUD requires completion of critical-life safety repairs before endorsement of the mortgage. Critical-accessibility repairs must be completed as soon as possible, although such repairs can be deferred until after endorsement when earlier completion is not possible. Non-critical repairs may be deferred until after endorsement."*

For clarification, the above is the overall policy for deferred critical accessibility repairs. HUD-2 waivers are not required. In addition, the Regional Production Director may now approve an extended period not to exceed six additional months for unusual circumstances (e.g., work constrained by weather conditions or work requiring temporary relocation of elderly or disabled tenants) without (1) sending a corrective action plan to HUD Headquarters or (2) Completing a HUD-2 waiver. (*Lender must include the specific request and justification in the Narrative Executive Summary.)

See also MAP Guide sections 5.10.7 and Appendix 5.

3.7.2.B: Projects Completed within the Past Three Years (ML 2020-03)*

HUD is enhancing flexibility for newly built or substantially rehabilitated projects with certificates of occupancy less than 3 years prior to application.

HUD is enhancing flexibility for newly built or substantially rehabilitated projects (with certificates of occupancy less than 3 years prior to application) from the current guidance in the MAP Guide as follows.

1. Applications may be submitted when: (a) all construction is complete; (b) all buildings received Certificates of Occupancy; and (c) physical occupancy reached 85%.
2. Applications may be submitted without achieving 1 full month of DSCR if: (a) absorption rates demonstrate the project will likely achieve DSCR within a reasonable time; and (b) closing can occur within 4 months after the firm commitment is issued.
3. Closing with 1-month DSCR achievement using a debt service reserve as risk mitigation may be authorized by the Regional Production Director.
4. For transactions closing with 1-month DSCR, the debt service reserve must consider lease-up performance, market strength, borrower strength and cash out holdback when sizing the reserve. The reserve should not exceed 6 months of debt service and may be shorter with other mitigating factors.
5. Release of cash out and/or debt service reserve can be considered for approval by the Regional Production Director when the average programmatic DSCR is achieved over a 6-month period, as opposed to rigid adherence to 6 consecutive months. (*Lender must include the specific request and justification in the Narrative Executive Summary.)

These provisions are only permissible based on transaction characteristics and proposed risk mitigations at the discretion of the Regional Production Director, and the lenders should discuss the merits at the Concept Meeting.

3.7.12: Cash Out / Equity Out Proceeds When Repairs are Deferred*

For cash-out loan transactions, the calculation of the incentive holdback (escrow) for deferred repairs has changed to factor in repair costs (not solely the cash-out amount), which will result in more moderate escrow calculations.

The cash out holdback is intended to provide a meaningful financial incentive for the Borrower to complete deferred repairs in a timely manner after endorsement. The cash out holdback is determined by a two-step process:

1. The basic calculation for the holdback amount is the lesser of: a) 50% of the cash out proceeds amount or b) 200% of deferred repair costs.
2. The final holdback amount is subject to a minimum and maximum test. The minimum amount (floor) is the greater of the basic calculated amount or 25% of the cash out proceeds amount. The maximum amount (ceiling) is the lesser of the basic calculated amount or \$1 million.

The Regional Production Director has the authority to approve an appropriate cash out holdback without the need for a HUD-2 waiver. (*Lender must include the specific request and justification in the Narrative Executive Summary.) In all cases, HUD is relying on Lenders to manage their Borrowers to ensure they complete the required repairs within the designated repair period. HUD will refer Lenders who fail to manage the repair process in a timely manner to the Counterparty Oversight Branch.

See also MAP Guide section 3.7.12, 8.11.1.

3.7.13: Capitalization Rates and Determination of Value

HUD is changing the MAP Guide language to eliminate the misperception that the cap rate “must be” higher than the mortgage constant.

MAP Guide 3.7.13 states: “Capitalization rates represent the blended or weighted cost of capital to the investor and the various methods of calculating capitalization rates utilize the mortgage constant to represent the debt portion of the cost of capital. Capitalization rates ***should generally exceed the mortgage constant*** in nearly all cases, and the MAP Underwriter should compare the mortgage constant to the capitalization rate as a test of reasonableness. A capitalization rate that is less than this mortgage constant may indicate a market that is over-heated or that the capitalization rate data in the appraisal is flawed. Regardless, a capitalization rate that is less than the mortgage constant may indicate the need for a more in-depth review.”

The above guidance is hereby changed to “Capitalization rates, in part, represent the blended or weighted cost of capital to the investor. The various methods of calculating capitalization rates use the mortgage constant to represent the debt portion of the cost of capital. A capitalization rate that is less than the mortgage constant may indicate a market that is over-heated, suggesting the need for more in-depth review. Capitalization rates ***should generally be in the range of the mortgage constant***. If the selected capitalization

rate is below the mortgage constant, it may be reasonable if well-supported by comparable sales and market extraction.”

3.9.2.4.3: Wind/Named Storm Insurance Deductibles

Casualty insurance for wind or named storm deductibles is changed to a per-building basis and the dollar cap of \$475,000 is eliminated to enhance industry alignment.

Mortgagee Letter 2024-05 Wind or Named Storm Insurance Coverage Maximum Insurance Deductible attempted to ease the financial hardship to developers to maintain affordable property insurance premiums on multifamily projects. However, HUD has found the dollar cap amount of \$475,000, with HQ waiver allowances, remains too restrictive.

The wind/named storm deductible remains capped at 5% of the Insurable value per location. The dollar amount of the deductible is subject to HUD underwriting the financial capacity of the owner to ensure the owner demonstrates liquidity equal to 2 or 3 times the dollar amount of the deductible. The lender should evaluate the historical liquidity of the owner and provide an analysis of the owner’s ability to fund deductibles, not only for the subject transaction, but for the owner’s overall portfolio of real estate in the foreseeable future.

The current guidance per Mortgagee Letter 2024-05 stating the maximum wind or named storm deductible to be the greater of \$50,000 or 5% of the insurable value “**per location**” is changed to “**per-building**” to align with HUD’s casualty insurance requirements and insurance coverage standards throughout the industry.

3.10: Elimination of Large Loan Segment and Associated Risk Mitigation

Large loans are no longer a separate segment and the associated risk mitigation underwriting standards are eliminated.

As part of Risk Mitigation policies in 2010, HUD implemented underwriting standards targeting large loan applications in excess of \$25 million. HUD increased the large loan threshold over time to \$120 million in 2023, with an allowance to annually adjust the threshold based on inflation.

After more than a decade of underwriting large loans, HUD determined that there is no notable difference or increase in risk solely based on the loan size. The demand for large insured loans over \$120 million is not significant, and HUD’s overall underwriting parameters for market rate and affordable transactions are sufficient to mitigate any

perceived risk related to the size of the mortgage. Rather than loan size, the prevailing risk-indicators are the experience, portfolio performance, sophistication and financial capacity of the key principals in the ownership entity. Therefore, the distinction for underwriting large loans based on the dollar amount of the mortgage is eliminated.

See also MAP Guide sections 4.2; 7.1; 8.14; 12.15; 18.4.

Chapter 4

4.4.2.A: Regional Production Director Discretion for EMAD Review of New Construction Projects

EMAD will only review third party market studies at the request of the Regional Production Director. Formerly, this was a mandatory review.

For new construction projects, the MAP Guide currently requires HUD's Economic and Market Analysis Division (EMAD) to review the Lender's third-party market studies and provide a report on overall macro market conditions and statistical data on households, population, payrolls, rents and vacancy rates.

While these reports continue to be valuable, EMAD's review will no longer be required in every instance. An EMAD review will be requested at the Regional Production Director's discretion, for cases where a more general overview of market performance is warranted. HUD underwriters may rely on their knowledge of the submarket conditions and statistical data readily available from the internet or other trusted sources.

See also MAP Guide sections 7.5.14.B and 7.18.8.A.2.

4.2.3: Lender Appeals of an Invitation for Firm Application or Firm Commitment Decision

Lenders have the right to file written appeals of HUD application decisions within 30 days.

MAP Guide Section 4.2.3.A is amended to state: All appeals must be filed within 30 days of the date of HUD's written decision on the application, must be in writing and delivered electronically to the Regional/Satellite Office Director or Production Director. Hard copy appeals are no longer required.

Chapter 5

5.1.2.A.1.b: Aggregate Cost for Non-LIHTC Heavy 223(f) Projects

For non-LIHTC transactions, contingency and assurance of completion amounts may be excluded in the upfront estimate of the Aggregate Cost but must be included in the final cost if spent from the contingency reserve and assurance of completion escrows.

Paragraph 5.1.2.A.1.b is hereby revised to read: For non-LIHTC transactions, contingency and assurance of completion amounts may be excluded in the upfront estimate of the Aggregate Cost. However, the final Aggregate Cost at the completion of all construction must include all actual amounts spent from the contingency reserve and assurance of completion escrows, as well as any cost increases incurred from change orders. The final Aggregate Cost must not exceed the Aggregate Cost Limit for any applications for refinance or acquisition pursuant to Section 223(f).

5.1.2.A.2.b: Base per Dwelling Unit Limit

HUD is adjusting the Base per Dwelling Unit limit to recognize an index that better captures increases in construction costs.

HUD set the Base per Dwelling Unit Limit (Base Limit) at \$15,000 per unit in 2016 and annually adjusted this figure for inflation (CPI-U index) through 2026. This ML provides that the index be changed to the U.S. Census Bureau's Fisher Ideal Index for New Multifamily Housing, including a recalculation of the 2026 figure as if the new index was utilized since the 2016 base limit establishment. The resulting Base per Dwelling Unit Limit is \$22,475 per unit for calendar year 2026. (Note, should an individual year show deflation under the new index, the minimum adjustment is 0% for operational efficiency.)

5.10.3: Capital Needs Assessment*

CNA reports dated more than 180 days of Firm Commitment application may be utilized, subject to the Regional Production Director's determination that reasonable justification exists.

MAP Guide 5.10.3 currently requires the CNA to be completed within 180 days prior to the application for Firm Commitment and expired reports to be returned for the needs assessor to update the report with reinspection. Upon evaluation of the lender's request and reasonable justification for a stale report, the Regional Production Director, at its discretion, may accept expired reports without the need for a HUD-2 waiver. (*Lender must include the specific request and justification in the Narrative Executive Summary.)

Chapter 7

7.5.2 and 7.6.1: Date of Appraisal and/or Market Study*

Appraisals and market study reports past their effective date may be utilized, subject to the Regional Production Director's determination that reasonable justification exists.

MAP Guide currently requires all appraisals and market studies to have effective dates 120 days prior to submission of a pre-application or 180 days prior to the issuance of a Firm Commitment. The Regional Production Director has the authority to determine whether updated reports are necessary upon evaluation of the lender's request, and accept expired reports without formally processing the HUD-2 waiver request form. (*Lender must include the specific request and justification in the Narrative Executive Summary.)

7.5.7.A.1: Elimination of Paint-to-Paint Requirement for Unit Square Footage

The "Paint-to-Paint" measurement method for unit square footage is no longer required; square footage can be measured with other reasonable methods or sources.

MAP Guide 7.5.7.A.1. states:

"The market study must include a thorough description of the proposed project, including:
1. The number of units by type and size with information on the number of bedrooms and bathrooms, structure type, square footage, etc. **Actual (paint to paint)** size should be noted as well as the size in published brochures or other media."

HUD is changing "Actual (paint to paint) size" to "Dwelling Units Size" and adding clarification as follows:

Square footage of area calculations will generally mean "gross square footage" or "gross area" as commonly used by the industry in methodology and calculations.

When calculating or presenting the Dwelling Unit Size or Net Rentable Area (e.g., commercial space), use the following methodology:

- Measurements from exterior face of walls and centerline of demising walls and not Paint-to-paint measurements.
- It includes airconditioned spaces only which include closets, hallways, and other areas within the dwelling unit.

- Balconies, Patios and other unconditioned spaces are generally excluded, but may be tabulated separately and added to the Unit Size if needed for evaluating comparables.

Additionally, the Square Footage of the unit type entered in CNA e-Tool's "Unit Type Definition" (located within "Unit Type" screen) should be the Dwelling Unit Size as described above.

In cases where the Dwelling Unit Size must be determined by measuring the dimensions of the unit onsite without the benefit of reliable construction documents (plans), the following may be allowed:

- Measure the rooms "paint-to-paint," from interior faces of the walls defining the room. Resulting square footage calculations may be aggregated to arrive at the Dwelling Unit Size.
- This aggregated size may be inflated by up to 10% to account for the thickness of the walls typically included in the Dwelling Unit Size square footage.

7.8.2: CPA/IPA Review of Financial Statements*

FHA is eliminating the CPA/IPA Review Requirement for financial statements required in the MAP Guide. Individual or officer certified statements must include the 18 U.S.C. 1001 acknowledgment language.

FHA is eliminating the CPA/IPA Review Requirement for financial statements. The MAP platform relies on the Lender to provide a realistic analysis of income and expenses from all available data. The lender must reconcile the operating statements with support from recent expense receipts/bills, rent rolls and bank statements and make any necessary adjustments for line items including capital expenditures.

Financial statements certified by any Principal individual or entity must include the following acknowledgment:

“ WARNING: Anyone who knowingly submits a false claim or makes a false statement is subject to criminal and/or civil penalties, including confinement for up to 5 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012, 1014; 31 U.S.C. §§ 3729, 3802).”

MAP Guide 7.8.2.B.3 is modified to allow the Regional Production Director to approve the borrower's justification and lenders' certified request when the required financial statements are not available for projects that have not been under the current ownership for at least 3 years without the need for a HUD-2 waiver. (*Lender must include the specific request and justification in the Narrative Executive Summary.)

See also MAP Guide sections 8.5.1.2, 8.5.1.3, and Appendix 8.3.13.A.3.

7.8.9.A.1: Maximum Underwritten Economic Occupancy Rate*

For market rate properties under Section 223(f), HUD will consider a maximum economic occupancy rate of 95% with Regional Production Director approval authority.

In general, market rate properties must have a maximum underwritten economic occupancy rate of 93%. For market rate properties under Section 223(f), HUD will consider a maximum economic occupancy rate of 95% with Regional Production Director approval.. (*Lender must include the specific request and justification in the Narrative Executive Summary.)

A lender may request this occupancy rate with a justification based on the property's operating history showing economic occupancy 95% or greater over a three-year history. Eligible properties would be only those qualifying under 3.7.2.A (certificates of occupancy issued 3 or more years prior to application) and excluded are those properties applying under 3.7.2.B (newly built or substantially rehabilitated properties with certificates of occupancy less than 3 years prior to application).

See also Map Guide 7.7.7.B, 17.5.2.B.2.b, and A.3.1.2.

7.15.1: Leaseholds/Ground Leases Definitions

HUD is clarifying the acceptable Fee Simple ownership structure of the Landlord.

MAP Guide 7.15.1.E is hereby revised to read: "Landlord: The owner of the Fee Simple interest in the land (and sometimes improvement on the land) who grants the Tenant the temporary possessory interest in the land (and improvements, if applicable). Natural persons, foreign entities, or Tenants-in-Common ownership structures (including entities such as Maryland Statutory Trusts and Delaware Statutory Trusts) are not permitted as Landlord entities."

7.15.3: Ground Leases

HUD provides additional latitude on ground lease payment terms to allow for certain payment change methodologies that are common in the market.

MAP Guide 7.15.3.1 and 7.15.3.2 currently prohibit graduated ground lease payments. HUD is revising these MAP Guide sections to allow certain annual increases to read as follows:

7.15.3.1 Acceptable Form of Ground Rent Computation

A. For all Leasehold projects, the Ground Rent must meet the underwriting standards of this MAP Guide. Ground Rents may be computed using one of the following methods:

1. A fixed percentage of Gross Collections (or Effective Gross Income). The percentage must remain the same throughout the term of the Lease.
2. A fixed percentage of net cash flow to equity (after Debt Service Payments but before Lease payments). The percentage must remain the same throughout the term of the Lease.
3. A stated dollar amount per year which must remain fixed for at least ten years beyond the term of the insured mortgage. If monthly or quarterly payments are required, these will be converted to annual amounts by the appraiser. When the Lease contains more than one method of computing the Ground Rent, it must also indicate whether the amount to be paid is to be the greatest or the least, or the sum of, these amounts. The stated annual dollar amount may be described as a minimum payment.
4. Annual ground rent increases (i.e., Cost of Living Allowance (COLA) or Consumer Price Index (CPI)) may be considered if the maximum annual increase is capped at 3%. The percentage must remain fixed throughout the term of the lease. The Lender must demonstrate through a stress test and cash flow analysis the project's ability to pay the lease payment in full each year for the term of the mortgage.
5. HUD expects ground rents to be underwritten as an expense. However, when ground rent is payable from surplus cash flow, with or without annual increases, the lease may be considered if the Lender demonstrates through a 10-year cash flow analysis the project's ability to pay the lease payment in full each year from the waterfall distribution of up to 75% of surplus cash.

B. The MAP appraiser must evaluate the payment based upon the acceptable Ground Rent computations and incorporate the payment into their conclusion of net operating income.

7.15.3.2 Unacceptable Lease Payments (Ground Rent)

A. HUD will not accept variable Ground Rents, including (1) graduated schedule of future increases on a lump sum/year-by-year basis, ~~(2) Cost of Living Allowance (COLA) or Consumer Price Index (CPI) increase, and or (2) increases based on the results of future appraisals or arbitration.~~

7.16: Tax Abatements

HUD is providing latitude to recognize additional value for Variable and Partial Term Tax Abatements for Section 223(f).

HUD currently recognizes value for Criteria 3 and 10, Form HUD 92264-A, when (1) the tax abatement is for the term of the mortgage, (2) it runs with the real estate versus the type of sponsorship, (3) involves a governmental ground lease or (4) the project is a low loan-to-value LIHTC transaction. HUD is changing its policy on restricting any value consideration involving variable and partial term tax abatements to align with industry standards.

HUD's intent with this policy change is to enable the Borrower to fully benefit from the abatement incentive in the debt service mortgage, avoiding a constraint from a traditional market value estimate that does not consider the contributory value of the partial or variable term abatement. The Lender must ensure that the resulting valuation is reasonable and accomplishes the fundamental policy intent without injecting risk into the transaction. Valuation conclusions that appear inflated to maximize cash out proceeds, with aggressive or poorly supported underlying analysis assumptions, will be heavily scrutinized during HUD's review.

The MAP Guide is hereby revised to allow the capitalized value in Criteria 3 and 10 from a variable or partial term tax abatement in underwriting, subject to the following standards:

1. The lender must document the abatement will be in effect at initial/final endorsement.
2. The lender must provide a copy of the enabling statute and narrative analysis for the tax abatement program.

3. The lender must provide draft documentation to be recorded in the public records, such as a Land Use Restriction Agreement, demonstrating the abatement is fully transferrable and will survive a foreclosure or assignment of the HUD insured mortgage.
4. HUD will require a Rider to the Regulatory Agreement documenting the terms of the abatement and the owner's required compliance with the restrictions, i.e., affordable or middle income housing. Non-compliance in maintaining the tax abatement as underwritten may be considered a violation of the Regulatory Agreement.
5. The MAP Appraiser engaged by the Lender must provide a separate value for the partial term or variable abatement and detail the valuation methodology used to derive the supplemental value conclusion to be added to the underlying market value estimate at full real estate taxes. While HUD is not prescribing a valuation methodology, a discounted cash flow analysis or similar recognized and accepted appraisal methodology, should be used to recognize a value from the abatement that is time-limited and does not endure for the term of the insured loan. The assumptions in the underlying analysis must be clearly detailed and carefully justified in the appraisal report.
6. Abatements for less than five (5) years will not be recognized for value. The lender must underwrite to full real estate taxes.
7. Criterion 5 must include a bifurcated debt service mortgage structure supported by the lender's calculations and amortization.
8. The Lender must provide a narrative risk analysis and stress test analyzing the terms of the abatement for HUD's consideration.
9. HUD may consider other underwriting factors, such as ownership experience and the likelihood of maintaining the abatement, in determining whether adding value from a short-term or variable term tax abatement is an acceptable risk for mortgage insurance.

Chapter 8

8.3.3.D.1; 8.3.5: Foreign Nationals

HUD is clarifying the mortgage credit underwriting requirements for all foreign national participants. All foreign national principals, both active and passive, regardless of ownership

interest in a transaction must provide a SSN or EIN and submit to a full mortgage credit review as required in Appendix A.8.4 of the MAP Guide.

All sections of the MAP Guide, specifically Chapter 8, are hereby revised to clarify the mortgage credit underwriting requirements for foreign national participants in FHA insured mortgage transactions in accordance with Appendix A.8.4 of the MAP Guide.

Foreign National Active Principal (entity or individual):

- Resume, Organizational Documents, Financial Statements, REO/Mortgage Debt Schedules (VOD, see App. A.8.4)
- Other Business Concerns, 92013-Supp, Apps/2530, EIN/SSN, Credit Authorization, Credit Report

Foreign National Passive Principal (entity or individual) regardless of ownership percentage:

- Resume, Organizational Documents, Financial Statements, REO/Mortgage Debt Schedules
- Other Business Concerns, 92013-Supp, Apps/2530, EIN/SSN, Credit Authorization, Credit Report

The Key Principal who signs Section 50 of the Regulatory Agreement, who meets the MAP Guide definition for the Section 50 signatory, must be a United States citizen or a foreign national who is a lawful permanent resident of the United States, having an immigration status granted by the United States government that enables that Principal to exercise operational decision-making authority.

8.4.1.C Use of Credit Reports and Credit Investigation- Other Business Concerns

Lenders are not required to submit credit reports for Other Business Concerns as mortgage credit exhibits.

Paragraph 8.4.1.C is hereby revised to read: The MAP Guide requires lenders to investigate credit for an individual's other business concerns (i.e. ownership of property management firm, general contracting or subcontracting firm, or land or property development entities, etc.). The lender should randomly select an overall 10% or more of these other business ventures or property operating companies for credit review for the individual and its other business concerns. The credit reports should contain information on pending judgment(s), legal actions and bankruptcy claims. The lender is required to evaluate credit reports and other information obtained in its review and provide a narrative summary to HUD as part of

its underwriting. The lender is not required to submit the credit reports and associated documents for other business concerns as application exhibits.

Chapter 11

11.3.4: Firm Commitment Term and Extensions

Firm Commitments will be issued with a term of 90 days, up from the previous term of 60 days.

Firm Commitments for all Sections of Act for mortgage insurance will be issued for a term of 90 days, versus 60 days as currently required in MAP Guide 11.3.4. This change will provide lenders and borrowers additional time to achieve closing and eliminate the need for short term extensions that have become routine, saving time for both lenders and HUD staff. There is no change to the maximum term of 180 days for the Firm Commitment, with an additional 60-day extension for good cause at the discretion of HUD Headquarters.

Clarification of HUD Forms and Application Requirements

HUD is clarifying instructions for when a form is required for specific transactions. The following clarifying instructions do not materially affect the burden placed on the respondents and ensure only required and/or relevant forms are submitted.

Form HUD-92013

Application for Multifamily Housing Project is **only** required upon submission of the pre-application or firm application. Updated forms HUD-92264 and 92264A are required throughout processing and with amendments to the firm commitment prior to initial closing.

Form HUD-92013-D

Reduced MIP Certification is eliminated by Federal Register Notice FR-6522-N-02. The MAP Guide will be updated accordingly.

Form HUD-92013-Supp

Supplement to Application for a Multifamily Housing Project remains a required exhibit for an application for mortgage insurance. However, the information listed in the Credit Reference section is no longer required if that information is already submitted in the

lender's application. The responses to the four questions on the form with attached explanations, as necessary, and the certification of the sponsor or contractor remain required.

Form HUD-2880

Applicant Recipient Disclosure Report is not required for projects that are distinctly market rate mortgage insurance transactions without any other form of federal, state or local government financial involvement. Projects receiving HAP/Section 8 subsidy, RAD, LIHTC and funding from other federal, state or local government programs must continue to submit form HUD-2880.

Form HUD-92264

Multifamily Summary Appraisal report is no longer required in Third-Party Appraisal Reports.

Form HUD-92438

Underwriting Summary Report is eliminated. The information provided on this form is redundant when compared to the information contained within the lender's application.

Form HUD-2283

Financial Requirements for Closing is replaced by a Lender Prepared Source and Use of ALL Funds statement that includes ALL mortgageable and non-mortgageable sources, fees and costs for all transactions. The detailed Source and Use of Funds statement by line item must be submitted with the firm application, all subsequent amendments, and as necessary up to the date of initial or final endorsement.

Application Exhibit 4-2.A.

Preliminary Title Report is combined with Exhibit 4-2.B. Easement and Maintenance Agreements.

Application Exhibit 4-5

Multiple Services and Utility Assurance Letters (if New Construction) may be submitted as one single exhibit 4-5 with an Index page of what assurances are included (Electricity, Natural Gas or Oil, Telephone, Cable Television, Internet, Water/Sewer, Garbage Collection, Storm Sewer).

Application Exhibit 5-5.A (Key Principal) and 5-5.C (Property)

CPA or IPA Review of most recent unaudited Financial Statements is not required.

Application Exhibit 6-2. State, City or County Approval of Plans, if available.

If this exhibit is available, please provide it; otherwise, please indicate that it is not available.