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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

October __, 2024

MORTGAGEE LETTER 2024 -XX

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.) face lack of available housing 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.

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 DCR	Vacancy Factor
Middle Income Housing (50% of Units Targeted at 60% - 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.

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. For questions about this Mortgagee Letter, please contact Willie Fobbs, Production Director, Office of Multifamily Housing.

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10/21/2024

Julia R. Gordon
Assistant Secretary for Housing- FHA Commissioner

Date