Notice: H 2019-10

Special Attention of:
All Section 232 and 242 Field Counsel
Section 232 and 242 Lenders

Issued: September 27, 2019
Expiration: This Housing Notice (“HN”) remains in effect until amended, revoked or superseded.


I. BACKGROUND

The 2017 Tax Cuts and Jobs Act (P.L. 115–97, Dec. 22, 2017) authorized the establishment of new investment vehicles known as Qualified Opportunity Funds, which permit the investment of capital gains in certain projects that entail the improvement of property located in qualified Opportunity Zones. Qualified Opportunity Zones are census tracts that are low-income communities as defined in Section 1400Z-1(c) of the Act, which references the New Market Tax Credit program at 26 U.S.C. 45D(e). On July 9, 2018, the Internal Revenue Service (IRS) published a list of more than 8,700 census tracts designated by the Secretary of the Treasury as qualified Opportunity Zones in the 50 states and U.S. territories: https://www.irs.gov/pub/irs-irbs/irb18-28.pdf. The list was updated on December 14, 2018 to include two additional census tracts in Puerto Rico and can be found at: https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx.

Executive Order 13853 (signed December 12, 2018) established the White House Opportunity and Revitalization Council “to encourage public and private investments in urban and economically distressed areas, including qualified opportunity zones.”

II. PURPOSE

To further promote Opportunity Zones, the Department of Housing and Urban Development (HUD) is introducing incentives for property owners applying for loans with FHA mortgage insurance pursuant to the following programs for properties located in a qualified Opportunity Zone:

- Section 232 Construction, and Section 232 pursuant to Section 223(f) and Section 241(a) and
- Section 242 Construction, and Section 242 pursuant to Section 223(f) and Section 241(a).
Priority in Queues (Section 232)

Transactions that entail properties located in qualified Opportunity Zones will be moved to the top of our underwriting queues based on the date of application submittal. To facilitate the process, the property’s census tract must be identified expressly in the Lender Narrative.

Reduced FHA Mortgage Insurance Application Fee (Section 242 and 232)

For the above-referenced transactions located in a qualified Opportunity Zone, HUD will reduce the FHA mortgage insurance fees as follows:

- Section 232: The application fee (also known as the “exam fee”) will be reduced from the current fee of $3.00 per thousand dollars of the requested mortgage amount to $2.00 per thousand dollars of the requested mortgage amount.
- Section 242: The application fee will be reduced from the current fee of $1.50 per thousand dollars of the requested mortgage amount to $1.00 per thousand dollars, and the commitment fee will be reduced from the current fee of $1.50 per thousand dollars to $1.00 per thousand dollars.

Low-Income Housing Tax Credit (LIHTC) Program (Section 232)

Further incentives may be available to FHA-insured mortgages for properties in qualified Opportunity Zones that are also Qualified Census Tracts or Difficult Development Areas under the LIHTC program. In particular, the annual (rather than the up-front) Mortgage Insurance Premium for such transactions is lower than that required of non-LIHTC transactions.¹

III. IMPLEMENTATION

This Notice is effective immediately for all new applications. If there are any questions regarding this Notice, please email John.M.Hartung@hud.gov.

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Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner

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¹ Please see Handbook 4232.1, Section II, Chapter 12 for more information on the LIHTC program and Section 232: https://www.hud.gov/sites/documents/42321s2c12HSGH.pdf.