

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



ASSISTANT SECRETARY FOR HOUSING-FEDERAL HOUSING COMMISSIONER

DATE: January 22, 2026

MORTGAGEE LETTER 2026 -1

TO: All FHA-Approved Multifamily Mortgagees

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

I. Purpose

This Mortgagee Letter (ML) provides updated underwriting standards and thresholds for Middle Income Housing as part of the Federal Housing Administration's (FHA's) Office of Multifamily Housing loan programs and fully supersedes previously issued ML 2025-2. The Middle Income Housing initiative 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 Section 220, Section 231 and Risk Share (Section 542) loans. The Middle Income Housing initiative addresses current real estate and financing markets and is intended to stimulate housing production as part of FHA's countercyclical role, while ensuring the continued availability and stability of the FHA insurance fund.

II. Background

Many households with incomes above levels typically targeted and defined as affordable (i.e., LIHTC, Section 8, etc.) lack access to rental housing affordable to them. Defining a Middle Income Housing segment can help owners, investors, lenders, state and local governments, and other stakeholders target rental housing activities to this segment. 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 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 rental housing they can afford.

As part of HUD's commitment to create additional housing, both affordable and market rate, FHA is introducing specific policy changes to support expansion of Middle Income Housing utilizing the

existing FHA 221(d)(4) loan program. By modifying the underwriting requirements, this Mortgagee Letter enhances the economic feasibility of more projects, which should lead to more housing being produced and therefore available and affordable to the segment of Middle Income renters.

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

Under the provisions of the Multifamily Accelerated Processing Guide (MAP Guide), loan proceeds are sized at 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 to value or cost ratios.

Under MAP Guide 3.1.12, the Middle Income Housing segment does not meet the definition of Affordable Housing and would otherwise be subject to the recently revised market-rate project underwriting thresholds¹. Therefore, HUD is establishing more favorable loan to costs ratios (LTC) and debt service coverage ratios (DSCR) thresholds specific to Middle Income projects as shown in the table below:

Middle Income Housing (50% of Units Targeted for Tenant Income Levels Up To 120% AMI)	Criteria 3 (Loan to Value/Loan to Cost)		Criteria 5 (Debt Service Coverage)		
<u>Loan Program</u>	<u>Market Rate LTC¹</u>	<u>Middle Income LTC</u>	<u>Market Rate DSCR¹</u>	<u>Middle Income DSCR</u>	<u>Vacancy Factor</u>
221(d)(4) NC/SR	87%	90%	1.15	1.11	7%

HUD's guidance is that qualifying projects should have at least 50% of units targeted for tenant income levels up to 120% of Area Median Income (AMI) secured by a recorded use restriction. There is no rent advantage analysis required by HUD for Middle Income Housing eligibility. However, this guidance is more fully described in the following section.

IV. Eligibility and Reliance on State/Local/Military RPP Programs

A major principle of the Middle Income initiative is that projects are eligible based on their participation in, and qualification by, an existing state or local middle-income program or Military Rental Partnership Program (RPP). By aligning the Middle Income ML with these initiatives,

¹ See Mortgagee Letter 2025-03, "Multifamily Changes in Debt Service Coverage Ratios (DSCR) and Loan to Value/Loan to Cost Ratios (LTV/LTC)", published on January 8, 2025.

projects are ensured to meet an identified state, local, or service member need, without further analysis of a rent advantage by HUD.

FHA is relying on and supporting these state and local initiatives that have:

- Identified a genuine local need for middle-income housing.
- Developed incentives to support the development of such housing.
- Established clear guidelines regarding the percentage of units and the AMI levels that qualify under their middle-income definition.
- Instituted a process to monitor ongoing compliance, through a formal use restriction.

Targeted Units AMI Parameters

HUD's guidance is that qualifying projects should have at least 50% of units targeted for tenant income levels up to 120% of Area Median Income (AMI). Because state and local programs vary, Regional Center Directors and their Production Division Directors have discretion to evaluate existing state and local programs that do not entirely fit the guidance parameters. For example, there may be programs that are close to the 50% threshold and/or require deeper income targeting that clearly meet Middle Income initiative's objectives, and thereby would likely be acceptable to HUD's eligibility determination.

In such cases, Regional Center Directors are delegated the authority to determine if a state or local program is acceptable based on reasonable achievement of this ML's guidance. The objective is to avoid rigidly informing a lender, developer, and their public partner who created an otherwise meritorious program that either (a) it doesn't meet FHA requirements and is therefore ineligible, or (b) the program must increase its AMI restrictions to 50% or above to leverage FHA's underwriting advantages. While restrictions at 20-30% of units will generally not be sufficient, programs with restrictions of 40% or greater, especially those with mitigating factors such as a focus on a lower AMI band to reach the lower end of middle-income households or clear discounts to market-rate units, should be considered by Regional Center Directors in consultation with their Production Division Directors. Regional leadership may engage in consultation with Headquarters Production staff to determine if such programs do reasonably achieve the guidance and initiative's objective.

Use Restriction Agreements

To ensure that middle income tenants gain meaningful benefits from the initiative, all targeted units must be secured by a recorded use restriction that survives a transfer of ownership and/or a Transfer of Physical Assets ("TPA") of the loan. HUD does not dictate the form of the use restriction or the compliance requirements, which are determined by the state or local program under which a project qualifies and has been approved for participation. Compliance with the use restriction must be monitored by a state or local government entity annually. A minimum use restriction period of 10

years is required. 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.

HUD shall require the use of the HUD Rider/Amendment to Restrictive Covenants (see MAP Guide Chapter 19 for a sample) to provide assurance of HUD's ability to enforce its loan documents, program obligations, and regulations. Regional Center Directors have waiver authority for this rider requirement when a lender waiver request presents documentation that the covenants do not conflict with any HUD right or requirement.

It is important to note that HUD's review of the application will include an evaluation of the state and local program itself. It must be an existing program with clear objectives, standards, incentives and wide availability to developers. In contrast, arrangements that appear to be a particular partnership between one developer and local unit of government such as a housing authority do not qualify, even if the AMI targets are technically achieved. The legitimacy of FHA's Middle Income initiative program is rooted in helping existing state or local programs meet their community needs and is open to all developers in that community.

Military Rental Partnership Program (RPP)

The Rental Partnership Program (RPP), offered and administered by U.S. military departments, is a qualifying program under HUD's Middle Income initiative. The RPP is designed to provide military personnel, both enlisted and officers, with affordable off-base housing. Because RPP rental rates typically involve rent discounts to eligible servicemembers (instead of tenant income qualification), HUD will evaluate the individual project's proposal at the time of application. Developers must provide HUD with reasonable assurance that the RPP will meet and maintain the Middle Income benefit and durability guidance (50% of units for at least 10 years).

V. Eligibility Through Conjunction with U.S. Department of Defense or U.S. Department of Interior Land Initiatives

Financing applications for multifamily projects where U.S. Department of Defense (DOD) or U.S. Department of Interior (DOI) land was acquired or ground-leased in 2025 or later are generally eligible for Middle Income underwriting. Such projects do not require participation in a state or local program, as these transactions establish housing on underutilized land where affordable rental programs would likely not preexist.

However, qualifying DOD or DOI based projects should have at least 50% of units targeted for tenant income levels up to 120% of Area Median Income (AMI), as well as a minimum use restriction period of 10 years, consistent with the requirements for other Middle Income projects.

Specific examples of a project qualifying for Middle Income underwriting based on a DOD or DOI land transaction would be 1) a project that is a leasehold interest subject to a DOD ground lease (under an executed HUD Multifamily Lease Addendum form) or 2) a land transaction negotiated and closed under the terms of the March 14, 2025, Memorandum of Understanding (MOU) between the U.S. Department of HUD and the U.S. Department of the Interior (DOI).²³

VI. 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. The MAP Guide 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.

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0541. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Frank Cassidy, Principal Deputy Assistant Secretary
for Housing

² <https://www.hud.gov/news/hud-no-25-042>

³ https://www.hud.gov/sites/dfiles/PA/documents/MOUBetweenHUD.DOI_.pdf