

FHA: A Critically Important Program for Financing Multifamily and Residential Healthcare Properties

It is critical to maintain FHA as an efficient source of financing to support rental apartments and residential healthcare facilities.

BACKGROUND

The U.S. Department of Housing and Urban Development's (HUD's) Federal Housing Administration (FHA) is a vital component of the U.S. housing finance system for rental apartments and residential healthcare facilities. The counter-cyclical role FHA's programs play and the revenue they produce for the federal government prove how valuable FHA is, particularly during periods of economic distress. FHA provides needed liquidity and stability to the multifamily and residential healthcare markets. These programs have consistently exhibited strong performance and have experienced very low delinquency rates. As a result, FHA is fulfilling its important and congressionally mandated housing mission while consistently producing revenue for the federal government that can be used to fund other necessary programs.

RECOMMENDATIONS

Reduce Costs to provide stable and sufficient resources to support affordable rental housing and residential healthcare properties.

HUD must work with lenders to ensure the continued production of multifamily housing units. FHA's production numbers for FY23 were nearly half of what was produced in FY22. At a time when the Administration has called for a significant increase in our housing supply, FHA must work with the industry so that quality rental housing continues to be built.

Today, the costs of FHA financing often make it infeasible to build. MBA has shared with HUD a list of recommended fee reductions that would not increase taxpayer risk but would ease challenges in building much needed housing.

Congressional Action Needed

At the Congressional level, we urge Congress to provide HUD with the funding necessary to maintain a staffing and technology infrastructure that is aligned with the volume, complexity, and importance of the FHA multifamily and residential healthcare programs. Congress should urge HUD to use all of their authority to ensure much-needed multifamily housing is produced.

HUD Statutory Limits. An integral part of increasing rental housing supply through the FHA program is having HUD statutory loan limits that are consistent with the current economic environment.

Unfortunately, the base allowable statutory loan limits for HUD programs have become out of alignment with multifamily property values, which unnecessarily impairs growth in the supply of affordable housing. The current methodology for adjustment does not fully reflect housing construction costs across the country. The statutory limits are set based upon a single, national cost per unit calculation. However, housing prices across the country vary significantly by region and market, and prices change differently across markets and regions from year to year. As a result, over time adjustments based on the nationally based CPI increase have not accurately capture actual increases in costs and prices in many parts of the country.

Reduce regulatory burdens and programmatic barriers to FHA-insured financing.

MBA encourages HUD to continue to analyze the impact of new regulations and policy initiatives, to assess their efficiency and effectiveness including the following:

- Wind/Named Storm Insurance. As severe weather events become routine and insurance markets continue to evolve, HUD's criteria must evolve as well. HUD should review insurance deductible requirements and the impact of increased insurance costs on properties.
- Davis-Bacon Wage Rates. Davis-Bacon wage rate determinations have an unnecessary and substantial adverse impact on new construction and rehabilitation projects. To minimize disruption, MBA recommends that HUD and the Department of Labor (DOL) conform their procedures for applying Davis-Bacon to the long-standing prior practice of favoring a single, residential wage schedule to FHA projects. We also recommend that DOL and HUD update story-height limits on Residential projects and revise procedures for the effective date of periodic updates to Davis-Bacon wage rates. Also, to the extent that DOL or HUD were to determine to apply a \$2.5 million threshold to FHA projects (we believe only the 20 percent threshold should apply), DOL and HUD should update the threshold to reflect the change over time in what would be considered a "very large project." Because this remains a significant issue for MBA members and industry stakeholders, MBA works closely with its FHA Committee Davis-Bacon working group to support advocacy efforts.
- Residential Healthcare Facilities. Providing access to financing for residential care facilities is an important role that HUD plays in the market. However, the program is in dire need of updating, and critical staff must be put in place. Specifically, we recommend FHA:
 - Permanently fill the position at OGC that coordinates legal review for the Section 232 (Lean) program;
 - Eliminate the 3-year rule for occupancy, as has been done for multifamily;
 - Lower the eligible age for Residential Care Facilities to fifty-five;
 - Support expansion of access to mental health and substance abuse treatment;
 - Allow the construction of independent living facilities, to ensure the needs of older Americans are met.
- Federal Finance Bank (FFB) Program. Both MBA and HUD share a goal of addressing the shortage of affordable housing and affordable rental housing. However, MAP lenders are concerned that the indefinite extension of the Federal Finance Bank (FFB) program, under which state Housing Finance Agencies can borrow directly from the FFB to fund their lending under HUD's risk-sharing program, may give state HFAs an unwarranted competitive advantage over MAP lenders. MBA has shared

with HUD officials six recommendations – including Davis-Bacon wage rates - that would create a level playing field between the FFB and MAP programs.

Continue to strengthen the LIHTC Program.

LIHTC is our nation's most successful tool for encouraging private investment in affordable rental housing. It has financed millions of homes for low-income families and individuals nationwide since 1986. To that end, MBA supports and encourages efforts to strengthen the LIHTC program by simplifying and streamlining program requirements, preserving existing affordable housing, and enabling the development of innovative, affordable housing solutions, particularly in underserved and rural low-income markets.

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