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In this edition, I want to focus on FHA's Office of Multifamily Housing. Quite a bit of attention in the industry and the media has been directed toward FHA's single-family programs, especially about the record volume levels and all of the enhanced risk management initiatives we have implemented.

But our Multifamily programs are also experiencing record-breaking levels of business volume, because FHA financing is an ever-more attractive avenue for developers of both market-rate and subsidized rental housing.

In addition to headquarters staff, FHA's Multifamily employees are serving our mission of providing liquidity to the multifamily market and affordable rental housing to our nation's communities in 18 Multifamily Hubs and 33 Program Centers throughout the country.

With little fanfare, our Multifamily Development staff has been handling the increasing demand for FHA mortgage insurance through programs such as 221(d) (financing for new rental projects), and 223(f) (refinancing). That demand has gone through the roof in Fiscal Year 2010, far beyond what it has been in recent years.

Let me provide some numbers to illustrate this: in Fiscal Year 2008, we endorsed 457 loans for multifamily projects for the development of about 49,000 rental housing units. The total mortgage amount of these loans was \$2.46 billion. In FY 2009, the totals were: 456 loans, a little more than 58,000 units, and \$3.38 billion in mortgages.

Are you ready for this fiscal year's numbers? From October 1, 2009 through September 9, 2010, our Office of Multifamily Housing has overseen the endorsement of 888 loans, a **ninety-five percent increase** over the previous year. And the fiscal year is not over: we're projecting that we will process a total of 975 loans during FY 2010.

Nearly 148,000 housing units will be developed from the projects insured so far this year, which is over two and a half times FY 2009's total. The total dollar amount insured is nearly \$9.5 billion, and we estimate the total for FY 2010 will be over \$10.2 billion, or **three times the volume of 2009**.

The increase was so great that last month, we had to go to Congress and ask for an additional \$5 billion in commitment authority for this fiscal year in the multifamily and healthcare insurance fund, the GI/SRI fund. They did grant us the additional authority, thus avoiding the prospect of shutting down the production pipeline.

In addition to spurring the production of much-needed rental housing units, FHA's Multifamily mortgage insurance programs not only operate at no cost to the taxpayer, they actually generate revenue to the government. Because of revenue collected from insurance premiums, our Multifamily business is projected to add \$369 million to the government's coffers in FY 2010.

I greatly appreciate the incredible amount of work being done by our Deputy Assistant Secretary for Multifamily Programs Carol Galante and her staff. And I have to tell you, the huge increase in demand for FHA Multifamily insurance was not met by a commensurate increase in staff. In fact, due to budget constraints, the work is being done by approximately the same number of staff as previous years.

Despite the increased workload, the Office of Multifamily Housing has also begun a comprehensive process to tighten up its risk management efforts.

You may recall that on July 7, we announced changes to the multifamily insurance programs that will enhance risk management measures and will increase oversight of multifamily lenders and underwriters. These changes will help update underwriting policies, increase lender and underwriter quality, and align loan application, review and approval standards.

Those changes are just one component of a new Multifamily framework. They reflect many of the lending industry's best practices and standards that have evolved in the multifamily market and are a much needed step to insure that FHA Multifamily programs are sound.

And we are making these changes at a very opportune time. Our insured Multifamily portfolio of over \$41 billion is expanding rapidly. We expect loan volume to continue at least the same pace in the future, adding another \$10 billion – or 25 percent – each year. So it is crucial that new business that is added to our portfolio reflects updated credit risk management and does not negatively impact the health of the insurance fund.

These are the first updates to our underwriting standards since the inception of FHA's multifamily programs – some of which are over 40 years old. These underwriting changes are expected to have a positive impact on FHA's portfolio performance and will reduce the likelihood of future defaults and claims on the insurance fund. They will affect all multifamily rental programs and loans that close later this year.

These changes were detailed in [Mortgagee Letter 2010-21](#) (attachments [A](#) and [B](#)) with a 60-day implementation period. These changes became effective September 7, for all new applications submitted after that date.

CHANGES WE ANNOUNCED:

Revised underwriting standards will raise debt service coverage ratios, lower loan to value and loan to cost ratios, increase project reserves and sponsor equity investment, and limit sponsor cash out. Underwriting ratios will be targeted to different property types based on their risk profiles.

Enhanced verification of property financial performance will decrease opportunities for misrepresentation and fraud.

Expanded borrower mortgage credit analysis will include a detailed review of contingent liabilities and ballooning term debt that could undermine a sponsor's financial stability.

Pre-screening of proposals before an application is submitted will permit early identification of transactions that are not feasible or are not likely to proceed to a commitment so staff can focus on a deeper analysis of transactions that will close.

Our headquarters staff has been conducting training of the field staff and lender staff to explain the changes and to assure a smooth implementation of the mortgagee letter. Training will continue throughout the fall.

And many other additional Multifamily initiatives are underway, including:

Heightened standards for lender and underwriter qualifications

All new and existing multifamily lenders and underwriters will undergo an additional screening process to insure that they are qualified and experienced before receiving approval to participate in specialty insurance programs. Under the new policy, a separate approval will be required to offer the agency's more complex insurance programs, such as those for new construction, substantial rehabilitation and Low Income Housing Tax Credits.

Results from the Multifamily Accelerated Processing (MAP) program show that these programs demand skilled lenders and underwriters with specialized knowledge. The existing system grants blanket approval to offer the full range of FHA programs without regard to specialized expertise. We anticipate these lender and underwriter qualifications to become effective later in the Fall, through a mortgagee letter.

Update to the Multifamily Accelerated Processing underwriting guide

Originally published in 2000, this underwriting guide establishes all underwriting and processing requirements for the MAP program. The guide will be updated and revised to incorporate all Mortgagee Letters, Housing Notices, and administrative guidance that have been issued since it was first published, along with new chapters on affordable housing underwriting and environmental requirements and expanded chapters on market studies, commercial income and mortgage credit analysis. We are currently revising the MAP Guide to reflect these changes in underwriting standards and we expect to publish the Guide this January.

Standardization of underwriter's narrative and application file contents

To assure critical analysis of the risks of proposed transactions by MAP underwriters, a standard underwriter's narrative will be used for applications submitted under all insurance programs. Currently, each lender uses its own narrative which leads to uneven and sometimes inadequate analysis of transaction risks. The new policy will also require that a standard table of contents be used to organize application submissions - a simple step toward

ensuring consistent and complete presentation of the underwriting materials and to facilitate efficient review of the application package by HUD staff. The new standardized narrative formats for use with new construction or refinancing applications have been completed and are being tested informally on several sample deals. Once they are finalized, they will be entered into paperwork reduction act clearance later this fall. Lenders will be required to use the standardized forms on all new applications by January 2011.

Loan committee

A new loan committee approval process will align Hub and Program Center commitment authority and practice to ensure consistency in underwriting throughout the regional offices, as well as to provide a platform to share best practices. Loan committees at the Hub and National levels will provide oversight for most transactions in the multifamily insurance program, depending on loan size and a project's number of units.

The notice implementing the Hub and National loan committees was issued in early August and became effective this month. The National Loan Committee has begun operating and has a regularly scheduled weekly meeting. The HUB Loan Committees will begin operating later this month. We have developed a transaction summary form to present the loan approval request to the committee and have also developed loan committee protocols to govern the committee's operation. The transaction summary and loan committee protocols will be distributed to the field staff later this month.

Multifamily Credit Watch

To better align lending practices across FHA programs, an objective, point-based system, based on one in use by Single Family, will track multifamily lender performance, material violations of FHA underwriting standards and the rate of loan defaults and claims paid. The current lender monitoring system identifies lender violations but fails to define associated penalties.

Under the new Multifamily Credit watch monitoring system, each lender's underwriting and loan performance will be compared to that of all other lenders in the MAP program. Based on that review, lenders may be placed on probation, suspended or could have their approval terminated. The new system will enhance FHA's ability to discover and take timely action against lenders that pose unnecessary and unmanageable risk to the insurance fund.

We expect that the Multifamily Credit Watch system will be published as a proposed Rule for a 30-day comment period later this month. After comments are received, a final Rule will be issued by the end of the year.

In closing, I want to emphasize how important our Multifamily insurance programs are as a source of financing for rental housing in this country, especially at a time when homeownership is beyond the reach of so many. I promise to keep you posted as we continue our efforts to both meet the demand and manage the risk to FHA accordingly.