

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

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

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 played during the Great Recession and the revenue they produce for the federal government prove how valuable FHA is, particularly during periods of economic distress, when FHA provided 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 rental housing mission while consistently producing revenue for the federal government.

RECOMMENDATIONS

Provide stable and sufficient resources to support workforce housing, affordable rental housing and residential healthcare properties.

Through the FHA Transformation reorganization effort, HUD has made significant strides to address the inconsistencies that FHA lenders and borrowers had experienced. Since the Transformation's completion, HUD has received generally positive feedback on its results. MBA recommends that FHA continue to review areas needing improvement related to production and asset management-related issues, timeliness and responsiveness, consistency on how production and asset management areas interpret guidance and retaining and attracting key staff at all levels through potential budget cuts.

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

Consistent with President Trump's Executive Order on Core Regulatory Principles, MBA encourages HUD to perform impact analyses of new regulations and policy initiatives, to assess their "efficiency, effectiveness, and the appropriate tailoring," including the following.

- MBA encourages HUD to defer implementation of its several pending environmental policy priorities pending completion of a rigorous review of their impacts and revisions that may be necessary to limit financial burden. MBA's Environmental Working Group has identified areas of concern that cause uncertainty and delays in the application process. Specifically, inconsistencies in how environmental guidance is interpreted has the impact of extending the timing of reviews, particularly review relating to site aggregation and applicability, floodplain and wetland processes and noise.

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MBA encourages HUD to develop clear and consistent guidance to address these issues and mitigate their adverse impacts.

- The processes around Davis-Bacon wage rate determinations have an unnecessary and substantial adverse impact on new construction and rehabilitation projects. To minimize disruption, MBA recommends that procedures for applying Davis-Bacon conformed to long-standing prior practice and practical considerations, to avoid unnecessary adverse impacts on new construction and rehabilitation projects. In particular, we recommend that HUD and the Department of Labor address unwarranted multiple- or split-wage decision and to provide reasonable procedures for implementing periodic updates to Davis-Bacon wage rates. Because this remains a significant issue for MBA members and industry stakeholders, MBA has formed a member Davis-Bacon working group to support our advocacy efforts.

Resolve technological and operational issues with the implementation of the CNA e-Tool.

The CNA e-Tool is mandatory for FHA multifamily mortgage insurance applications, Rental Assistance Demonstration conversions, 10-year update capital needs assessments for FHA-insured multifamily properties, and other asset management processes, such as partial payment of claims. At launch, the e-Tool had many flaws that made it difficult to use and it did not contain all the requisite functionality. Because of the substantial impact the e-Tool has on the application process, MBA formed a CNA Advisory Working Group. The Group worked closely with HUD, and HUD considered our recommendations and made changes to the e-Tool's most urgent functional issues. HUD is also planning future system enhancements that will eventually achieve a more appropriate level of functionality. HUD recently allocated additional funds that will facilitate the completion of such improvements.

Expand HUD's targeted affordable multifamily housing programs including the Low-Income Housing Tax Credit (LIHTC) program and the Rental Assistance Demonstration (RAD) program.

FHA recently announced a Low Income Housing Tax Credit Pilot Program, which should incentivize the production of new construction and substantial affordable rehabilitation multifamily rental housing. The objective of the pilot is to decrease processing times to 30 days under the Expedited Approval Process track and 60 days under the Standard Approval Process track. As HUD describes it, the expanded pilot program will ensure faster and more efficient processing for low-risk, LIHTC transactions by eliminating redundant reviews. MBA's LIHTC Committee worked closely with HUD in support of this effort over the past two years.

MBA supports RAD and acknowledges strong lender participation in the RAD program. MBA was pleased that the RAD cap was recently raised to 455,000 units and that eligibility requirements were expanded to include Section 202 Project Rental Assistance Contract (PRAC) properties. The appropriations bill also extended RAD by four years until 2024.

MBA also is pleased that the Tax Cuts and Jobs Act of 2017 preserved the LIHTC program, consistent with MBA's strong advocacy. The Act also, however, lowered the corporate tax rate, which has affected the value of tax credits under the program. We recommend that policymakers address resulting adverse impacts on the LIHTC program, and take actions necessary to maintain and strengthen the continued viability of LIHTC as an effective program for financing for low-income housing.

Expand the network of FHA-approved private sector lenders.

The public-private partnership between FHA and lenders has produced over 10,000 outstanding multifamily loans and is a tremendous resource that should remain a priority. The success of the FHA program is reflected in the sustained strong performance of the multifamily FHA-insured portfolio. To further this success, MBA recommends that FHA maximize its network of FHA-approved private sector lenders to work as the preferred partners and the primary source for FHA delivery of affordable and workforce housing by the private sector.

Training of FHA staff is critical to a successful, long-term transformation.

Adequate staff and expertise are necessary to realize the full benefits of the transformation effort. MBA supports FHA staff training to allow new and seasoned staff to upgrade their skills in underwriting, risk analysis and asset management. In this regard, MBA has worked with HUD to provide a key educational resource, the FHA underwriter training program. Launched in 2013, the ongoing participation of HUD employees in the program along with many industry participants is a resounding testament to its success. MBA recommends continued support for training HUD staff to increase overall knowledge and promote consistency across offices and regions and will continue to provide training support as HUD determines appropriate.

FHA policies and procedures should reflect the current competitive landscape and economic trends in the housing market.

MBA applauds the positive steps that the FHA took in 2017 to strengthen multifamily and healthcare finance programs by launching two handbooks, which included many revisions strongly supported by MBA. MBA strongly encourages HUD to continue efforts to update the 4350.1, *Multifamily Asset Management & Project Servicing Handbook* and to leverage the knowledge and expertise of FHA lenders in the process.

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