

# 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. 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. The Administration continues to call for increased supply, and FHA can help achieve that.

Today, the regulatory burdens of FHA financing often make it infeasible to build. MBA has shared with HUD a list of recommended changes 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, adjustments based on the nationally based CPI increase have not accurately captured actual increases in costs and prices in many parts of the country. MBA strongly supports the Housing Affordability Act, H.R. 6132, introduced by Representatives Monica De La Cruz (R-TX) and Ritchie Torres (D-NY); and S.1527, introduced by Senators David McCormick (R-PA) and Ruben Gallego (D-AZ). These bills will increase the volume of FHA-backed multifamily loan activity by updating the underlying program's outdated loan limits (not updated since 2003) that have restricted HUD's ability to keep pace with the cost of developing multifamily housing in communities throughout the country; and establish the use of a new, more accurate index for the designation of "high-cost" areas that accurately reflects the impact of inflation and the current costs of apartment construction.

### **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:

- 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.
- Environmental Requirements. Over the past several decades, changes in underwriting requirements for FHA multifamily loans have proliferated. Many of these changes have come in areas that are unrelated to the risk of the loan but instead have fulfilled other policy goals that add expense and complicate and hinder the production of quality housing for the American people. MBA recommended changes include radon testing, noise and vibration studies, fall hazards, underground pipelines, and choice-limiting actions.
- 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:
  - 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;
  - Permanently fill the position at OGC that coordinates legal review for the Section 232 (Lean) program;
  - Allow the construction of independent living facilities and/or increase the allowable percentage of independent living units, to ensure the needs of older Americans are met.

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