

NAHMA HUD Update: Proposed Changes to the FHA-HFA Multifamily Risk-Sharing Program Regulations

On March 8, HUD issued a proposed rule amending existing regulations for the Section 542(c) Housing Finance Agency (HFA) Risk-Sharing Program. The proposed rule is attached to this message and is linked to the NAHMA website below.

Through the Section 542(c) HFA Risk-Sharing program, HUD enters into risk-sharing agreements with state and local housing finance agencies (HFAs) so that HFAs can provide more insurance and credit for multifamily loans.

HUD issued this proposed rule in an effort to amend existing regulations for the program so that they better align with policies for other HUD programs and conform to statutory amendments. The regulation changes propose that certain loans made by Level 1 HFAs (those that assume 50 percent or more of the risk of the loans) do not need to be regularly amortizing, provided that the loans have a minimum term of 17 years and HUD approves the HFA's underwriting standards, loan terms and conditions, and asset management and servicing procedures. HUD states that non-fully amortizing loans is not unusual in multifamily lending and this change would align the Risk-Sharing program with conventional industry practices. HUD also proposes to amend the program so that supportive housing developments financed by Level 1 HFAs would be subject to the same underwriting standard as Section 202 developments for the elderly, allowing the use of contract rents in the loan underwriting process.

Additionally, HUD includes a proposal that will require the underwriting standards, loan terms and conditions, and asset management and servicing procedures for Level 2 HFAs (those that assume less than 50 percent of the risk of loss on mortgages insured under this program) to be rectified with HUD every five years. HUD notes that the purpose of this review is to periodically benchmark Level 2 HFA underwriting standards against current FHA standards. A requirement that the FHA Commissioner's approval for any "large loan" made by Level 2 HFA is included. This is the same policy used under the Multifamily Accelerated Processing (MAP) program; the definition of large loan would be consistent with the MAP program.

For preservation deals, the proposed rule seeks to remove current roadblocks facing HFAs. For Level 1 HFAs, the proposed rule would expand the ability to insure equity take-out loans to refinance and purchase deals. This provision is consistent with similar FHA programs and industry practice. The proposed rule would also amend the definition of "substantial rehabilitation," which is currently defined as work that exceeds 15 percent of the project's value. Under the proposed rule, "substantial rehabilitation" would be defined as situations in which the scope of the rehabilitation work exceeds a sum equal to the FHA base per-dwelling-unit-limit times the applicable high-cost factor, or when the scope of work involves the replacement of two or more building systems.

HUD will accept comments on the proposed rule until April 7, 2016.

To view this proposed rule, please [click here](#)

Scott McMillen
Government Affairs Manager
The National Affordable Housing Management Association (NAHMA)
(703) 504-9616
<http://www.nahma.org/>