U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Special Attention of:

All Multifamily Housing Staff
All Multifamily MAP Lenders

Notice H 2023-06

Issued: June 28, 2023

Expires: This notice remains in effect until amended, superseded, or rescinded.

Cross Reference:
Mortgagee Letter 2023-14

Revisions to Large Loan Risk Mitigation MAP Guide Policies

Purpose

This Housing Notice updates HUD's underwriting standards for large multifamily loans contained in the Multifamily Accelerated Processing ("MAP") Guide. Large loan underwriting policies address the single-point risk of loss to the FHA insurance fund. Except where otherwise stated, these policies do not apply to loans below the large loan dollar threshold or to loan applications under Section 223(a)(7), which refinances existing FHA-insured loans.

Background

Housing Notice 2011-36, Housing Notice 2014-03, and Housing Notice 2014-13 discussed the need for specialized underwriting standards to mitigate the increased risks to the insurance fund of losses from Large Loans on properties located in a single submarket with potentially hundreds of rental units. The revisions incorporated in this Housing Notice are intended to modernize current requirements.

Large Loan Policy Revisions

This Housing Notice implements two policy revisions:

1. The threshold for Large Loans has increased to $120 million, up from $75 million. HUD has not updated this threshold since 2014. HUD's risk analysis and industry feedback showed this revision was prudent to revise upward, primarily due to cost increases of housing and construction over the last decade, without providing undue risk to the FHA insurance fund.

2. Provides a method to annually revise the Large Loan threshold based on inflation. This revision will allow HUD to review or adjust the Large Loan threshold on an annual basis, along with similar inflation adjusted items in the MAP Guide.

MAP Guide Revisions

Section 3.10 is revised entirely as follows:

3.10 Large Loan Risk Mitigation

3.10.1 Purpose & Threshold

A. This section addresses the single-point risk of loss created by large individual loans and defines the underwriting standards for large multifamily loans. Except where otherwise stated, these policies do not apply to loans below the large loan threshold or to loan applications under Section 223(a)(7).

B. The threshold defining a large loan is a loan amount of $120 million and greater.

C. HUD revised the large loan threshold to $120 million in 2023, establishing a base dollar amount and base year. Annually, HUD will review the threshold amount for an inflation adjustment, in $5 million increments, based on the percentage change published by the Bureau of Labor Statistics of the Department of Labor or other inflation cost index. However, in no case will HUD implement a reduction of a current threshold amount.

3.10.2 Underwriting Ratios for Large Loans

A. The following Debt Service Coverage Ratio (DSCR), Loan to Value Ratio (LTVR) and Loan to Cost Ratio (LTCR) underwriting standards shall be applied to large loans:

1. For New Construction/Sub Rehab large loans under Sections 220, 221(d)(4), 231, 241(a):

Property Is:	**DSCR Limits**	**LTVR/LTCR Limits**
Market Rate & LIHTC (without rent advantage)	1.30	75%
Affordable	1.25	80%
=> 90% Rent Assisted	1.15	87%

Section 241(a) loans are limited by statue to 90% (see Section 3.6)

2. For refinancing large loans under Section 223(f):

Property Is:	**DSCR Limits**	**LTVR/LTCR Limits (Without / with cash out*)**
Market Rate & LIHTC (without rent advantage)	1.30	75%/70%
Affordable	1.25	80%/70%
=> 90% Rent Assisted	1.15	87%/80%

* Note: Loan amount with cash out is determined at Criterion 10 of the form HUD-92264-A.

3.10.3 Increased Reserves for Large Loans

A. New construction/substantial rehabilitation projects need an appropriately sized operating deficit reserve to help assure success of these projects during their early, most vulnerable stages of rent-up. The amount of an operating deficit reserve for loans not reaching the large loan threshold is described at Chapter 8, Section 8.14.C.6. For large loans, the minimum operating deficit reserve amount shall be the greater of 12 months amortizing debt service plus MIP or the amount calculated per MAP Guide Chapter 7, Section 7.14.

B. For large loans under Section 223(f), for properties with certificates of occupancy issued less than 3 years prior to application, a debt service reserve is required which shall be the greater of 12 months debt service (principal, interest and MIP) or 50% of any excess loan proceeds (cash out). The debt service reserve will be released upon six consecutive months of operating results meeting or exceeding the underwritten debt service coverage requirement, including any such months prior to endorsement. If prior to endorsement six consecutive months of underwritten debt service coverage have been achieved, no operating deficit reserve is required.

C. For all large loans, HUD's analysis of the risks and the mitigants appropriate to the loan application may require further restricting the required DSCR, LTCR, or LTVRs, and/or the minimum operating deficit or debt service reserve requirements. Lenders should detail appropriate risk mitigants for such transactions, which will be reviewed on a case-by-case basis.

3.10.4 Extended Lease-Up Period

A. A large loan is often associated with large property size measured in number of units, which may indicate a lengthy lease-up or absorption period. The absorption period for estimating market demand is up to a maximum of 18 months. HUD Regional Office Directors may waive the 18-month absorption period restriction only in cases where there is an unusually strong market that will support initial rent-up to sustaining occupancy beyond 18 months and where the Borrower has clearly demonstrated successful experience with developing such projects in the recent past. Such projects may require larger operating deficit or debt service reserves.

3.10.5 Higher Net Worth and Liquidity

A. For large loans, the principals of the borrowing entity must have, in aggregate, net worth equal to at least 20% of the loan amount and liquidity equal to at least 7.5% of the loan amount. This requirement may be waived for Sponsors of subsidized affordable housing properties.

All Other Sections, as appropriate:

All MAP Guide cross references will be revised for consistency with revisions to 3.10 and edited to reference a "large loan". (The numeric threshold will not be repeated in other sections.)

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Julia R. Gordon, Assistant Secretary for Housing—
Federal Housing Commissioner