

New York Housing Conference



Proposal to Increase FHA Statutory Mortgage Limits in Elevator Buildings

Background

The Federal Housing Administration (FHA) is authorized under the National Housing Act to insure multifamily loans originated by FHA-approved lenders for the construction, substantial rehabilitation, acquisition, and refinancing of apartment buildings and health care facilities.

Sections 221(d)(3) and 221(d)(4) insure mortgage loans to facilitate the new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, the elderly, and the handicapped. These programs insure lenders against loss on mortgage defaults. Section 221(d)(3) is used by nonprofit sponsors and Section 221(d)(4) is used by profit-motivated sponsors. Both programs assist private industry in the construction or rehabilitation of rental and cooperative housing for moderate-income and displaced families by making capital more readily available. The programs allow for long-term mortgages (up to 40 years) that can be financed with Government National Mortgage Association (GNMA) Mortgage Backed Securities. The availability of this type of financing is critical, especially as financing from other sectors of the lending community has become less available.

Insured mortgages may be used to finance the construction or rehabilitation of detached, semidetached, row, walkup, or elevator-type rental or cooperative housing containing five or more units. The programs have periodically adjusted statutory mortgage limits which vary according to the size of the units, the type of structure, and the location of the project. In particular, the Act imposes limitations on the per-unit multifamily mortgage amount (“base limit”) that may be insured based on building type (elevator or non-elevator building) and number of bedrooms.

Recent Mortgage Activity

Recent mortgage activity under Section 221(d)(4), based on data provided by HUD, demonstrates incredibly low usage of the programs across the nation for elevator projects. Of the 478 multifamily projects that received a final endorsement between 2002 and 2008, and were not financed under Federal government programs, only 31 (6.5%) were FHA-insured, and most of those were financed from 2004 to 2006. Only three elevator projects have been financed under these programs in the last two years. *See chart from HUD.*

The low per-unit base limits on FHA insurance makes the program practically unavailable in high-cost areas, where elevator buildings are more common. The base limits were just minimally increased in April 2009. While an increase is positive, these last increases do not take into account the much greater increases in construction and development costs since the last base increase in 2002. The limits continue to be too low in many metropolitan areas, where mid- to high-rise elevator buildings are more common. The Act permits adjustments for high-cost areas on an area-wide basis of up to 240% above the otherwise applicable levels and up to 270% on a project-by-project basis. A 360% adjustment is allowed for Hawaii, Alaska, Guam and the Virgin Islands.

This is still not sufficient for high-cost areas such as Boston, New York City, Los Angeles, San Francisco and Chicago. Non-luxury affordable elevator buildings in these cities have development costs of

approximately \$300,000/unit. Mixed-income buildings, such as 80/20s, that are in more expensive parts of the cities so that they can use the high market-rate rents to cross-subsidize the affordable units, have costs over \$500,000/unit, not including land purchase. For example, it would cost approximately \$50 million to construct a 100-unit building in Manhattan. A proposed loan, even at 80% of cost, would be at least \$40 million or \$400,000/unit. The current FHA base limit per two-bedroom unit is approximately \$68,000/unit. With the existing high-cost area boost of 270%, it is increased to approximately \$183,000/unit, leaving a gap of \$217,000/unit to make the project feasible.

Proposal

The most efficient solution would be to increase base limits for elevator buildings in high cost-areas to approximately \$150,000 for a two-bedroom unit and similarly for other sized units. At a base limit of \$150,000, the existing high-cost area boost would be sufficient to achieve an insurable loan amount of \$400,000/unit. In the current economic environment where many other financing options are no longer available, it is critical to make FHA mortgage insurance more accessible for elevator buildings and in high cost areas.

Section 221(d)(iv) Average Mortgage/Unit Elevator & Non-Elevator Projects							
Year	Mrtg. / Unit All Projects	# of Projects	Mrtg. / Unit Non- Elevator	# of Projects	Mrtg. / Unit Elevator	# of Projects	% Difference
2002	\$61,990	51	\$61,596	49	\$71,629	2	14.01%
2003	\$72,730	89	\$71,781	83	\$85,852	6	16.39%
2004	\$73,466	93	\$69,609	83	\$105,481	10	34.01%
2005	\$75,416	97	\$73,884	93	\$111,027	4	33.45%
2006	\$76,183	62	\$74,316	56	\$93,606	6	20.61%
2007	\$81,867	49	\$80,681	48	\$138,809	1	41.88%
2008	\$85,204	37	\$82,864	35	\$126,161	2	34.32%
Totals & Averages	\$75,265	478	\$73,533	447	\$104,652	31	27.81%

The average per unit amounts displayed above are final endorsements of Section 221(d)(iv) New Construction Projects that were not financed with LIHTC, Tax Exempt Bonds, Home, Hope VI or GDBG Grants. The Median difference between Elevator and Non-Elevator is 33.45% with the average being 27.81%. Most of the elevator projects closed 2004 to 2006. The suggests a midrange of 20.61 to 34.01, which should be the most reliable range. The average of the amounts in the midrange is 29.35 which correlates well with the overall average.