



# Unlocking Supply:

How HUD  
Financing  
Updates Shift  
the Multifamily  
Landscape

A fact-based guide to what changed, why it matters, and how the math on multifamily deals can look different going forward.

Multifamily sponsors have spent the last few years underwriting in a market that offers less margin for error. **Interest rates moved higher and stayed there longer** than many pro formas originally assumed. At the same time, **operating costs have stayed elevated** in ways that show up fast in underwriting, including insurance, taxes, payroll, and utilities. In several markets, **new supply has also created a more competitive leasing environment**, which makes it harder to rely on quick rent growth to solve a tight deal.

That combination changes what sponsors need from permanent financing. The priority shifts from “maximum proceeds at any cost” to proceeds you can underwrite with confidence, terms you can model for the long run, and execution rules that don’t force repeated re-trades late in the process. In other words: the market puts more pressure on the inputs that drive debt service, coverage, and overall feasibility.

HUD made these changes in 2025 for a simple reason: too many otherwise workable multifamily transactions were getting squeezed by higher rates, higher costs, and underwriting standards that no longer matched the market. The goal was to make FHA more usable for affordable, workforce, middle-income, and market-rate housing by easing key constraints, improving competitiveness, and helping more new construction, rehab, and preservation deals move forward.

HUD has also signaled that more positive multifamily updates could follow in 2026, with draft guidance pointing to additional changes to its Multifamily Accelerated Processing (MAP) framework as well as underwriting updates still in the pipeline.

**The 2025 updates have changed the inputs inside FHA sizing. Here are three of the most important updates for developers and owners:**

1. A flat 0.25% mortgage insurance premium (MIP) reduces a long-term cost line item that sits inside annual debt burden for the life of the loan.
2. Updated DSCR and LTV/LTC thresholds make sizing less restrictive for many market-rate and affordable transactions, which can help more deals clear underwriting without reshaping scope.
3. The clarified Middle Income Housing option creates a defined framework for workforce-oriented executions in places where local program infrastructure supports compliance.

Together, industry experts make FHA execution simpler to model and more competitive in a market that rewards predictability.





“When the market tightens, small variables aren’t small anymore,” says Adlana Buck, FHA Chief Underwriter at X-Caliber. “The HUD changes matter because they reduce friction in the math—especially recurring costs and sizing constraints—at a time when deals don’t have much cushion.”

What you’ll find in this whitepaper:

- A clear summary of the new HUD rules that change deal math—coverage, leverage, and long-term debt cost
- How the updates can affect the way deals pencil in today’s market, especially proceeds capacity, DSCR cushion, and recurring costs
- What the Middle Income Housing option requires in practice (use restrictions, monitoring, and where it tends to fit)
- A simple comparison of 221(d)(4) vs. 223(f) and why the same HUD updates land differently for development vs. stabilized assets
- What “HUD-ready” execution means and why file completeness and sequencing drive predictability

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## The Biggest Change: MIP Drops to a Flat 0.25%

If you want one change that impacts almost every FHA multifamily conversation, it’s this: HUD moved to a standard 25-basis-point MIP across the board.

“There were a few programs that were as high as 95 basis points, so to remove 70 basis points of yield from that is pretty meaningful,” says David Borsos, Vice President of Capital Markets at the National Multifamily Housing Council.

## Why an MIP change has a deeper impact than most policy changes

MIP is not a one-time fee you forget after closing. It's a recurring cost that sits in the annual debt burden for the life of the loan. When you lower that line item, you change the relationship between:

- NOI and coverage
- Cash flow and refinance scenarios
- Required rent growth assumptions
- How much proceeds a deal can support under sizing tests

“Sponsors don’t argue with the idea of long-term FHA capital. They argue with uncertainty in the long-term math. A flat 25-basis-point MIP helps because it removes a variable that used to swing comparisons and coverage more than most people realize.”

-ADLANA BUCK  
FHA Chief Underwriter at X-Caliber

## What else changed with MIP: fewer categories, simpler structure

HUD’s shift to a flat MIP also eliminated the need for older tiering structures, including the prior “Green MIP” categories that were designed as incentives. That doesn’t mean energy standards disappear. It means HUD no longer uses MIP tiers as the main incentive lever, with MIP already at the statutory minimum.

Bottom line: If you model FHA economics, this is the cleanest input change HUD could make, and it shows up immediately.



# DSCR and LTV/LTC Updates: More Deals Can Fit the Box

Mortgagee Letter 2025-03 updated debt service coverage (DSCR) and loan-to-value/loan-to-cost (LTV/LTC) thresholds for many FHA multifamily executions. The direction of travel is simple: HUD eased debt service constraints for many market-rate and affordable deals.

## The headline thresholds

For many market-rate deals, HUD moved to:

- LTV/LTC: 85% → 87%
- DSCR: 1.176x → 1.15x

For affordable housing, HUD moved to:

- LTV/LTC: 87% → 90%
- DSCR: 1.15x → 1.11x

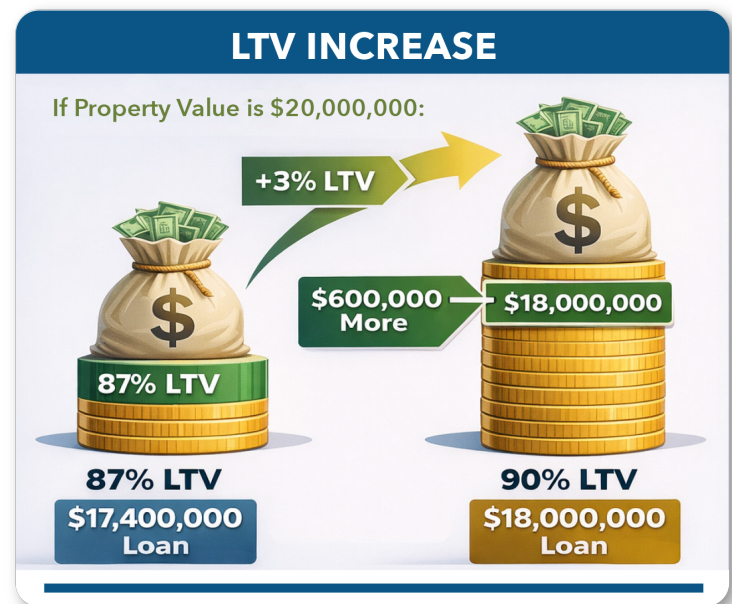
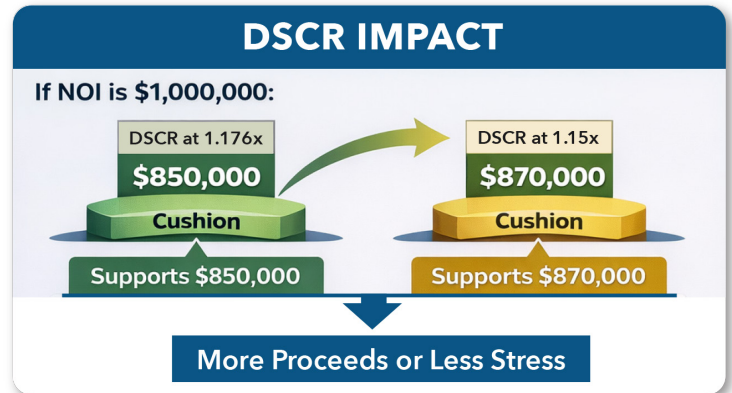
For properties with 90% or more rental assistance, the key thresholds remain at:

- LTV/LTC: 90%
- DSCR: 1.11x

## Why this matters in real underwriting conversations

Many deals don't move forward because a key sizing limit shows up earlier than expected:

- Coverage can become the main limiter as expenses increase faster than rent growth
- Leverage can become the main limiter when project costs grow faster than NOI
- In some cases, both limits apply and the remaining gap requires a scope or capital stack adjustment



By relaxing DSCR and LTV/LTC in combination, HUD made it more likely that a deal can clear sizing tests without "hero assumptions."

"When a deal struggles to clear sizing, the issue often isn't the concept, it's the margin," Buck says. "Small changes in DSCR or leverage can decide whether the sponsor can keep scope intact or has to value-engineer something that changes the project."

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## Middle Income Housing Under 221(d)(4): Tighter Definition and Rules

HUD introduced a Middle Income Housing concept, then updated and clarified it in Mortgage Letter 2026-01.

HUD's reasoning is practical: "middle income" has meant different things in different places, and HUD wanted a clearer framework for underwriting and compliance. HUD notes that many definitions target households roughly in the 60%–120% area median income (AMI) range, with variations in high-cost markets.

### **The underwriting box sets clear sizing parameters**

For Middle Income Housing under 221(d)(4), HUD set:

- LTC: 90%
- DSCR: 1.11×
- Vacancy factor: 7%

And HUD tied eligibility to the existence of a state or local middle-income program, including a recorded use restriction and monitoring framework.

### **Sponsors will want to confirm the execution fits the project**

A 50% restricted-unit requirement can influence the revenue mix and compliance process, so sponsors typically test whether the project still supports the plan under realistic rent and expense assumptions. They also look at monitoring requirements and whether the local or state program framework makes the restriction practical to implement.

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## Where 221(d)(4) and 223(f) Fit: The Same Updates Land Differently

HUD's program descriptions give the clean baseline:

- 221(d)(4): new construction and substantial rehab
- 223(f): acquisition/refinance of existing multifamily (DSCR and LTV/LTC updates apply across both programs)

### **Why the changes feel different for development vs. stabilized deals**

For 221(d)(4) deals (new construction):

- The model often hinges on feasibility: can the permanent debt support enough proceeds to support construction without adjusting the scope?
- MIP and DSCR both show up in long-term viability math, not just closing proceeds

For 223(f) deals (existing multifamily assets):

- The model often hinges on current operations, expense pressure, and how lenders treat cash flow stability
- DSCR flexibility can matter most when owners face resets (insurance/taxes) or uneven rent growth

## Execution Certainty: Why ‘HUD-Ready’ Matters More Now

As HUD expands the set of deals that can qualify on economics, the sponsor’s ability to deliver a complete, consistent package helps ensure certainty of execution and adherence to key milestones that prevent delays.

MAP is designed around lender-prepared submissions and HUD review standards. The MAP Guide and Mortgagee Letters point toward the same idea: standardized underwriting expectations, complete applications, and disciplined sequencing.

### A “HUD-ready” approach typically includes:

- Clear operating story and support (rent roll, financials, explanation of trends)
- Well-defined scope (especially if repairs or rehab sit near program thresholds)
- Third-party reports scoped early enough to avoid late-cycle surprises
- Organizational clarity (ownership structure and decision-makers)

“The fastest way to slow down a HUD execution is to let basic documentation drift,” Buck says. “When the file tells a clean story, including property, sponsor, scope, and sources, review becomes more predictable.”



## Design, Energy Codes, and Resilience: Incentives Shift

Even with MIP simplified, design and energy decisions still hit the underwriting model through cost (envelope, systems, materials, schedule) and operations (utility assumptions and long-term expense behavior).

The International Energy Conservation Code and ASHRAE 90.1 standards continue to shape building requirements through local adoption. What changed is HUD’s approach to incentivizing energy efficiency through MIP tiers: once MIP moved to a universal minimum, those older categories no longer functioned as intended.

**Positive takeaway:** The MIP change simplified the economics, while energy performance still matters because it affects long-term operations.

# Putting It All Together: A Practical Modeling Checklist

Here's a sponsor-friendly way to use HUD's updates without turning this into a "what should I do" guide.

**01** **Re-run the numbers with the new rules.**

- Update DSCR and LTV/LTC to ML 2025-03 thresholds
- Model MIP at the flat 0.25% input

**02** **Pressure test the deal where it usually breaks.**

- If coverage binds, stress expenses and utility assumptions
- If leverage binds, stress basis and equity requirements
- If timing risk matters, treat "HUD-ready" file discipline as part of the plan, not an afterthought

**03** **If Middle Income Housing is in play, model compliance like a core deal term.**

- Confirm the existence of an eligible state/local program framework
- Map the use restriction mechanics and monitoring expectations
- Treat reporting requirements as real operating work, not boilerplate



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## How Pending Legislation Could Amplify HUD's Multifamily Financing Changes

HUD's recent updates improve the "inside-the-program" math—recurring cost (flat 0.25% MIP) and loan sizing (DSCR and leverage). In higher-cost markets, though, the binding constraint can shift from underwriting ratios to statutory loan limits or to capital stack capacity. Two current legislative proposals on Capitol Hill would address those constraints in ways that could increase the practical reach of HUD's recent changes if they become law.

The Housing for the 21st Century Act focuses on raising statutory maximum loan limits for FHA multifamily mortgage insurance programs and updating how those limits adjust over time using a more specific inflation index tied to development costs. The ROAD to Housing Act covers similar ground by calling for analysis of whether current multifamily loan limits remain appropriate and describing a pathway for HUD to increase certain loan limits through rulemaking within specified bounds.

Together, the throughline is straightforward: If loan limits rise or become easier to adjust, more projects, particularly in high-cost markets, could fully benefit from HUD's eased DSCR and leverage standards rather than reaching a loan-limit ceiling first.

The ROAD to Housing Act discussion also includes a separate capital-availability lever: raising the cap on banks' public welfare investments (PWIs). If bank PWi capacity expands, it could support credit availability for affordable housing-related investment activity. That can matter for transactions where the capital stack, not just the permanent debt sizing, drives feasibility.

**The sponsor impact:** HUD made underwriting and recurring-cost inputs more favorable. These proposals could determine whether those improvements translate into higher executable proceeds on deals where loan limits or complementary capital sources become the first constraint.

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## In Conclusion...

HUD's recent updates changed the math in practical ways: lower recurring cost, more flexible sizing, and a clearer path for qualifying middle-income deals. For borrowers, that means FHA can now work on more transactions that might not have cleared the box under the old standards. And this story may not be finished. It continues to evolve.

HUD has already signaled more multifamily policy updates through draft 2026 guidance, so borrowers should expect the program to keep moving in a direction that supports execution certainty, housing production, and more workable deal structures. Additional tailwinds may come if Congress expands FHA multifamily loan limits or gives HUD more room to adjust them.

**The bottom line:** HUD's changes reflect what the market has been signaling: sponsors need long-term capital that fits real operating risk. Expect more emphasis on borrower experience, documentation, asset condition, and ongoing compliance—even as sizing becomes more flexible. The best approach is to treat FHA as a program-driven execution from day one: align the capital stack, the scope, and the reporting expectations before you get hooked by the potential proceeds.

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