

# FHA: a Powerhouse for Multifamily Mortgage Capital

## KEY TAKEAWAYS

- FHA's lending programs represent a significant source of multifamily debt capital.
- In FY 2018, FHA insured \$15.2 billion of multifamily mortgages, down very slightly from FY 2017, but well above most recent years.
- One-third of the multifamily loan production went for financing new development in FY 2018. FHA guaranteed \$5.1 billion, up 54% over FY 2017.
- Texas was the top state, by far, for FHA new construction financing in FY 2018.

## FHA IS A GIANT IN MULTIFAMILY FINANCE

The Federal Housing Administration (FHA) is a major source of debt capital for the multifamily industry.

FHA is part of the U.S. Department of Housing and Urban Development (HUD). Due to this relationship, the FHA lending programs are often referred to as HUD programs. However, the programs are administered entirely by FHA.

Technically, the mortgages are provided by private FHA-approved lenders, insured by FHA and Ginnie Mae, and then sold as Ginnie Mae mortgage-backed securities (MBS).

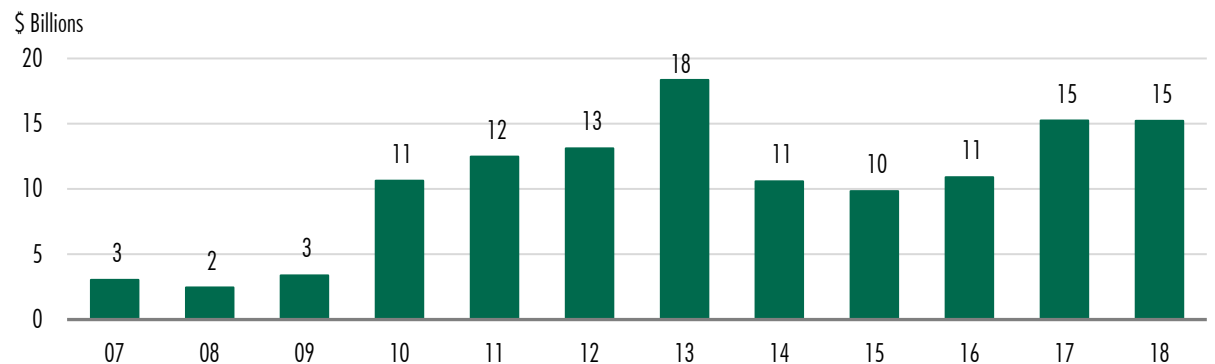
Figure 2: FHA Multifamily Lending 2018 vs. 2017

	2018	2017	Change (%)
<b>Number of Mortgages</b>			
FHA NC/SR - 221(d)(4)	269	204	31.9
Refi/Purchase - 223(f)/(a)(7)	570	757	-24.7
<b>Total</b>	<b>908</b>	<b>1,055</b>	<b>-13.9</b>
<b>Volume (\$ Billions)</b>			
FHA NC/SR - 221(d)(4)	6.35	4.45	42.6
Refi/Purchase - 223(f)/(a)(7)	8.08	9.85	-18.0
<b>Total</b>	<b>15.21</b>	<b>15.24</b>	<b>-0.2</b>
<b>Units</b>			
FHA NC/SR - 221(d)(4)	47,850	33,803	41.6
Refi/Purchase - 223(f)/(a)(7)	91,575	125,891	-27.3
<b>Total</b>	<b>148,446</b>	<b>170,382</b>	<b>-12.9</b>

Source: CBRE Research, U.S. Federal Housing Administration, Q4 2018. For fiscal years ending 9/30. Initial endorsements. NC/SR = new construction and substantial rehab. Totals include a few other small programs.

FHA is sometimes lumped into the "alternative debt" category since it is not as well known as banks, CMBS, life insurance companies, Fannie Mae and Freddie Mac. However, FHA has been very active in multifamily lending for some time, and its production growth in recent years has been truly impressive. For FY 2018, FHA guaranteed \$15.2 billion, down slightly from FY 2017, but well ahead of most years over the past decade (2007-2018 average = \$10.4 billion).

Figure 1: Historical FHA Multifamily Mortgage Production (Initial Endorsements)



Source: CBRE Research, U.S. Federal Housing Authority, Q4 2018. Fiscal years ending 9/30. Initial endorsements for all multifamily programs. Excludes healthcare.

FHA's FY 2018 total was smaller than Fannie Mae (\$64.2 billion), Freddie Mac (\$74.2 billion), and life insurance companies (about \$30 billion) for the same period. However, FHA production was almost double CMBS (about \$8 billion).

FHA is a leader for construction financing for both ground up development and substantial rehabs. The agency's FY 2018 total of nearly 48,000 new or substantially rehabbed units represents a significant portion of the industry, and FHA is very likely second only to banks for construction financing. (Construction mortgage volumes are not known for the banks or alternative debt sources. Traditional non-bank sources of mortgage capital are not major players in construction finance.)

Historically, FHA has been thought of as a lender for low-income housing. That is a misconception—both for the past and the present.

FHA does provide financing for affordable housing targeted at lower-income households. Yet, the majority of FHA loans are for market-rate communities targeting families with in a wide range of incomes. Existing properties receiving permanent loans are typically Class B. But, the vast majority of non-LIHTC development projects receiving FHA financing are Class A.

**FHA LENDING GROWTH DRIVERS**

FHA's lending production has experienced significant growth during the post-recession years and remains very competitive today due to several factors. First, in contrast to many other lending sources especially banks and CMBS, FHA remained active during the early recovery years not only for permanent debt but also for construction. In so doing, FHA captured market share and greater respect as a major source of mortgage capital.

Second, over the past decade, the agency has made major changes to its internal organization and programs to improve its product offerings and enhance efficiency.

Third, FHA is very competitive on rates and terms especially for higher-leverage loans. FHA can go up to 85% LTV or LTC (90% for affordable housing transactions)—levels which few other first-mortgage providers will reach. For high-leverage loans, FHA has possibly the lowest mortgage rates available. FHA loans are longer term (up to 40 years) with favorable prepayment terms that allow borrowers to pre-pay/refinance loans early without huge penalties. Loans are non-recourse and are fully assumable.

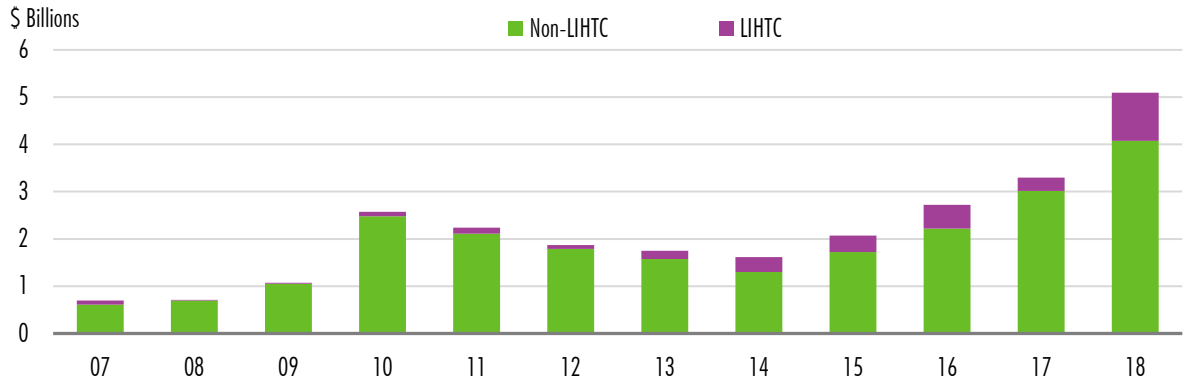
Fourth, while the FHA lending process is often challenging to borrowers (steep learning curve) and lengthier than other capital sources, refinancing assets with existing FHA loans is not (contributing to 2013's upsurge as well as high levels of activity in other post-recession years). Conversion from a construction loan to a permanent loan is also relatively easy.

**Figure 3: FHA Financing of New Apartment Construction - FHA 221(d)(4) Program**

Fiscal Year	All				LIHTC		
	Loans No.	Volume (\$ B)	Units	Avg Size (\$ M)	Loans No.	Volume (\$ B)	Units
2007	49	0.69	8,591	14.2	15	0.08	1,956
2008	42	0.71	7,792	16.9	5	0.01	292
2009	53	1.07	10,589	20.2	5	0.02	524
2010	134	2.57	26,026	19.2	14	0.10	1,738
2011	116	2.24	19,996	19.3	18	0.13	1,753
2012	103	1.87	17,815	18.2	13	0.08	1,394
2013	97	1.75	16,287	18.0	18	0.17	2,240
2014	87	1.62	15,406	18.6	28	0.32	4,110
2015	111	2.07	18,466	18.7	32	0.35	3,925
2016	121	2.72	22,413	22.5	36	0.51	5,645
2017	125	3.30	23,258	26.4	27	0.29	3,152
2018	184	5.09	36,395	27.7	55	1.02	9,616
<b>Total</b>	<b>1,222</b>	<b>25.72</b>	<b>223,034</b>	<b>21.0</b>	<b>266</b>	<b>3.08</b>	<b>36,345</b>

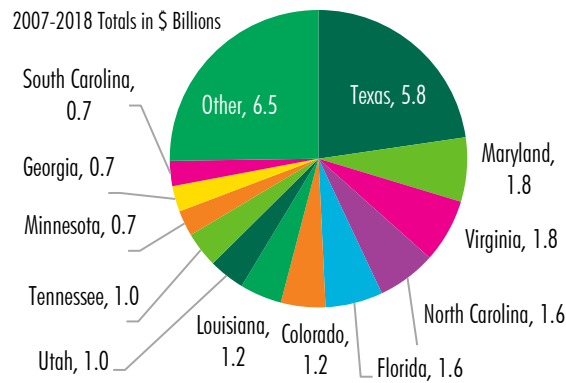
Source: CBRE Research, U.S. Federal Housing Administration, Q4 2018. Data represents fiscal years ending 9/30, mortgage amounts of initial endorsements. Totals for FHA 221(d)(4) programs only; there has also been a light amount of new construction financing through other programs (220/urban renewal and 231/housing for elderly programs). Excludes coops, SROs and condos. Includes a small number of seniors housing communities.

Figure 4: Historical FHA New Apartment Construction Lending



Source: CBRE Research, U.S. Federal Housing Administration, Q4 2018. FHA 221(d)(4) program only. See Figure 3 for additional details.

Figure 5: FHA New Apartment Construction Lending by State



Source: CBRE Research, U.S. Federal Housing Administration, Q4 2018. FHA 221(d)(4) program only. See Figure 3 for additional details.

Figure 6: FHA New Apartment Construction Lending by State

State	Volume (\$ M)	Units	\$ Per Unit
Texas	1,459	11,782	123,800
Florida	400	2,603	153,600
North Carolina	311	2,731	114,000
Louisiana	306	2,255	135,800
Minnesota	299	1,750	171,000
Colorado	277	1,640	168,900
Virginia	255	1,700	150,200
Georgia	188	1,296	145,000
Washington	172	842	203,900
Tennessee	164	1,349	121,400
Maryland	153	946	162,100
<b>Total U.S.</b>	<b>5,094</b>	<b>36,395</b>	<b>140,000</b>

Source: CBRE Research, U.S. Federal Housing Administration, Q4 2018. FHA 221(d)(4) program only. See Figure 3 for additional details.

**FHA IS LEADING SOURCE FOR DEVELOPMENT CAPITAL**

FHA is a very significant source of construction financing for the multifamily industry. In FY 2018 alone, total mortgage production exceeded \$5 billion, rising 54.4% from the prior year.

Over the past 12 years, FHA has insured nearly \$26 billion in new construction loans via its FHA 221(d)(4) program alone. (FHA's 220/urban renewal program has guaranteed another \$1.4 billion in new construction financing.)

For the 2007-2018 period, FHA construction lending totaled \$1 billion or more in 10 states.

The leading states are predominantly high growth (population, apartment demand) and lower cost. Louisiana is the exception to the high growth characteristic; some lending activity here is due to continued rebuilding efforts from Hurricane Katrina in 2005. FHA has lower lending volumes in states which have active state housing finance authorities such as Massachusetts, many other Northeast states, Illinois and California.

Texas has received the most capital, by far, at nearly \$6 billion over the past 12 years. In FY 2018 alone, FHA construction financing reached \$1.5 billion in Texas, well ahead of second place Florida with \$400 million.

**MULTIFAMILY RESEARCH**

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