X-CALIBER

LENDING & INVESTING FOR THE GREATER GOOD

FHA MULTIFAMILY LENDING PROGRAMS

ADAPTING TO MARKET EVOLUTION



Executive Summary

Multifamily housing continues to demonstrate resilience as it adapts to fluctuating capital markets, evolving interest rate conditions, and elevated levels of new supply. While rent growth has moderated and vacancy rates have trended upward, underlying demand for rental housing remains strong across the United States.

Contents

4 | Market Landscape

4 | FHA Multifamily Loan Programs

5 | Updated FHA Multifamily LTV Limits

5 | FHA 223(f) Program

5 | FHA 221(d)(4) Program

5 | FHA 223(a)(7) Program

6 | 2025 Program Enhancements

6 | HUD Proposes Elimination of Green MIP

6 | Updated Income Limits and Tax Credits

6 | Key Policy Changes Developers Should Know

7 | Current FHA Program Underwriting Metrics

7 | Short-Term Financing Solutions

8 | FHA Financed Projects

8 | Pre-Development Bridge to FHA 221(d)(4)

8 | Bridge to FHA 223(f)

9 | Bridge to FHA 223(f) + Mezzanine Financing

9 | The FHA Financing Edge in Today's Market

9 | A Market at an Inflection Point

9 | Stability, Predictability, and Mission Alignment

10 | Sources

Market Landscape

Commercial lending volume has moderated, yet investors continue to favor multifamily assets for their stable demand, reliable cash flow, and favorable demographic trends. Multifamily properties remain a resilient asset class, supported by ongoing housing needs, shifting lifestyle preferences, and population growth in key markets. Even as capital markets adjust, the long-term fundamentals for multifamily investment continue to attract interest from a broad range of investors.



Against this backdrop, FHA financing offers a consistent source of long-term capital, supporting multifamily owners and operators as they navigate a shifting market.



Key advantages include:

- Long-term, fixed interest rates
- High loan-to-value (LTV) ratios
- Non-recourse terms that protect sponsors while supporting both market-rate and affordable properties
- Fully amortizing loan terms, no balloons

FHA Multifamily Loan Programs

FHA-insured loans remain a leading option for market-rate multifamily properties, consistently offering several advantages over conventional executions. These loans typically provide higher proceeds, are fully amortizing over up to 35 years for existing properties, and up to 40 years for new construction or substantial rehabilitation, and are non-recourse, reducing risk for borrowers. FHA interest rates are generally 50–100 basis points lower than those available through conventional lenders, and often undercut rates offered by Fannie Mae and Freddie Mac. Additionally, FHA multifamily loan programs now offer higher leverage and more flexible underwriting standards compared to conventional financing, with loan-to-value ratios up to 87% for market-rate properties and up to 90% for affordable housing.

Updated FHA Multifamily LTV Limits (Effective January 2025)

FHA 221(d)(4) PROGRAM

PROPERTY TYPE	PREVIOUS MAX LTV	NEW MAX LTV
Market-Rate	85%	87%
Affordable Housing	87%	90%

New Construction and Substantial Rehabilitation

- Term: Maximum of 40 years – plus construction period
- Fixed interest rate for entire term
- Eligible for LIHTC and other subsidies

FHA 223(f) PROGRAM

PROPERTY TYPE	PREVIOUS MAX LTV	NEW MAX LTV
Market-Rate	85%	87%
Affordable Housing	87%	90%

Acquisition & Refinance of Existing Properties

- Term: Maximum of 35 years, but no less than 10 years, and is fully amortizing
- Cash-out refinancing permitted
- Eligible for newly constructed properties that are stabilized and meet the occupancy and debt service requirements

FHA 223(a)(7) PROGRAM

Streamlined Refinancing of Existing FHA-Insured Loans

- Term: Maximum of 12 years beyond in-place financing term, and is fully amortizing
- No new appraisal required in most cases
- Potential reduced mortgage-insurance premium (MIP)
- Finance closing costs can be included in new loan amount



2025 Policy Trends and Program Enhancements

HUD has recently implemented significant updates to its multifamily mortgage insurance programs. Among the most notable changes are reduced minimum debt service coverage ratios (DSCR), increased maximum loan-to-value (LTV) and loan-to-cost (LTC) ratios, and the elimination of the Green Mortgage Insurance Premium (MIP) Reduction program.

HUD Proposes Elimination of Green MIP

In place of the Green MIP, HUD has introduced an across-the-board MIP structure, reducing all multifamily MIPs to 25 basis points for products such as 223(f), 221(d)(4), 241(a), and 223(a)(7). This move eliminates previous incentives tied to green building and energy performance, establishing a single, streamlined MIP structure for all borrowers. These changes deliver several key benefits, including:

- Lower compliance costs by eliminating the need for energy audits, utility benchmarking, and annual ENERGY STAR reporting
- Streamlined application and underwriting process, making closings quicker and less complex
- Greater clarity by establishing a single MIP structure, leveling the playing field for all multifamily applicants

These adjustments are intended to make HUD's multifamily lending process more accessible and efficient, reinforcing HUD's appeal for borrowers seeking longer loan terms and higher proceeds.

Updated Income Limits and Tax Credit Incentives

HUD released new 2025 income limits, reflecting an average increase of 4.6%. This change directly affects tenant eligibility and the maximum allowable rents across affordable housing properties. In addition, HUD broadened the designations for Difficult Development Areas (DDAs) and Qualified Census Tracts (QCTs), expanding eligibility for the 30% basis boost in Low-Income Housing Tax Credits (LIHTC).

Key Policy Changes Developers Should Know

Faster Refinance Access: Developers can now apply for refinancing as soon as construction is complete, all buildings have Certificates of Occupancy, and 85% physical occupancy is achieved. A full month of debt service coverage ratio (DSCR) is no longer required at application, though a waiver and case-by-case evaluation remain necessary.

Simplified Cash Out and Reserve Release: Rather than meeting six straight months of DSCR performance, borrowers can now qualify based on a six-month DSCR average, increasing flexibility and liquidity remain necessary.

Long-Term Affordability Requirements: HUD will now require waivers of the Qualified Contract provision for LIHTC-financed properties, extending affordability commitments beyond the initial compliance period.

Policy Shift on Subdivision Rentals: HUD has lifted prior restrictions on "subdivisions for rent," which involve clusters of single-family homes operated as rental communities. These will now be reviewed individually until formal guidance is issued.

These adjustments streamline HUD's multifamily lending process while supporting affordability and increasing project viability. The goal is to reduce barriers, expand access to capital, and strengthen long-term outcomes for developers, tenants, and communities.

Current FHA Program Underwriting Metrics

PROPERTY TYPE	DSCR LTV/LTC
Market Rate 221(d)(4) & 223(f)	1.15×87%
Affordable 221(d)(4) & 223(f)	1.11×90%
Middle-Income 221(d)(4)	1.11x90%

These changes enhance developers' ability to unlock higher loan proceeds, reduce equity requirements, and execute faster, more flexible HUD-financed deals in a competitive market environment.



Short-Term Financing Solutions

FHA processing time can vary. Borrowers can execute short-term solutions with a bridge loan, a short-term alternative that helps borrowers fill a gap to a permanent execution. A bridge loan with flexible terms will provide the right blend of temporary funds to support the long-term benefits of the competitive terms provided by an FHA or other agency loan type.

A bridge loan is a solid option if:

- A competitive bid demands quick funding
- A 1031 exchange deadline approaches
- The asset needs time to boost occupancy or income before underwriting

Another option is the mezzanine loan. Mezzanine financing can provide owners and operators with access to cash while preserving their in-place, lower-cost debt. Mezzanine loans typically offer LTV up to 85% with a 24 to 36-month term and have recourse and non-recourse options.

The next few pages illustrate how FHA financing can be used for projects in various stages of development.

FHA Financed Projects

Pre-Development Bridge to FHA 221(d)(4)



$4.45MM BRIDGE LOAN

24-MONTH TERM

INDIANAPOLIS, INDIANA

THE OPPORTUNITY: An experienced real estate developer identified an opportunity to construct a 50-unit affordable multifamily housing complex in an emerging urban market, strategically targeting low and middle-income renters. The borrower required pre-development capital to advance critical project milestones before securing permanent construction financing.

THE SOLUTION: X-Caliber provided a $4.45MM bridge refinance for land to construct both multifamily and affordable housing, centered during a 50-acre renewal project.

The pre-development loan facilitated a strategic pathway to delivering affordable multifamily housing in a challenging market environment.



Bridge to FHA 223(f)

$23MM ACQUISITION

36-MONTH TERM

MERRILLVILLE, INDIANA

THE OPPORTUNITY: The C-class, well-built, well-located property consists of 360 one- and two-bedroom units and was constructed in stages from 1974 – 1981. The property was left without management oversight or funds for maintenance and upkeep. As a result, since its purchase in 2019, the apartment building went from almost fully occupied to as low as 55% occupied, in a market that averages close to 95% occupancy, and rents were 40% below market.

THE SOLUTION: In late 2023, a new buyer acquired distressed property with the goal of immediate stabilization. X-Caliber provided the borrower with a $23MM bridge loan to acquire the property, fully renovate the interior units, and perform some exterior renovations with the goal to restabilize the asset.

X-Caliber's short-term bridge financing enabled the borrower to acquire the property and immediately address deferred maintenance, accelerating much-needed improvements to boost occupancy to 95% and market appeal. Post stabilization, the sponsor will execute an FHA 223(f) refinance loan.

Bridge to FHA 223(f) + Mezzanine Financing



$13MM CASH-OUT REFINANCE BRIDGE LOAN + $14MM FHA 223(f) + $350K MEZZANINE

35-YEAR TERM

TUCSON, ARIZONA

THE OPPORTUNITY: The property is a market-rate, 100-unit multifamily community built in the 1970s and located in Tucson, Arizona. It consists of multiple low-rise buildings featuring spacious one- and two-bedroom apartments. Following significant improvements, the property experienced consistent rent growth and reached nearly 95% occupancy. To capitalize on this momentum, ownership sought financing to refinance existing debt, return equity, complete property upgrades, and implement energy-efficient enhancements eligible for a reduced MIP.

THE SOLUTION: X-Caliber provided comprehensive financing solutions tailored to meet the property's specific needs with an initial $13MM bridge loan for property stabilization. Upon property stabilization, X-Caliber executed a $14MM HUD 223(f) refinance, offering competitive interest rates, high proceeds, and non-recourse financing terms. To ensure continuous project execution, X-Caliber supplemented financing with a mezzanine loan of $350K, providing funds for repairs including energy efficient improvements.

This strategic financing has positioned the complex to provide long-term value, stable housing solutions, and sustained community benefit.

The FHA Financing Edge in Today's Market

A Market at an Inflection Point

In a climate of rising costs and constrained capital, recent FHA policy changes offer a timely advantage. By lowering debt-service coverage thresholds, increasing leverage limits, and introducing new pathways for middle-income housing, FHA financing unlocks greater proceeds and reduces equity pressure making it a critical tool for sponsors navigating today's financial complexities.

Stability, Predictability, and Mission Alignment

FHA loans are distinguished by their long-term, fixed-rate, non-recourse structures, which provide rare stability in a volatile capital markets environment. This reliability is highly valued by sponsors and investors, allowing for more accurate long-term planning and risk mitigation. The government insurance backing

further enhances lender confidence, supporting more favorable terms for borrowers who might otherwise be sidelined by conventional underwriting criteria. They offer predictability across economic cycles, preserve liquidity, and help ensure project viability in both development and acquisition scenarios.

In an evolving market, it remains one of the most reliable and mission-aligned solutions available to multifamily stakeholders. For sponsors seeking both resilience and relevance, FHA remains an important capital source for sustainable multifamily finance.

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