BedfordLending

How Debt Coverage and Leverage Varies for Affordable Projects

"Affordable Housing" under HUD's 223(f) and 221(d)(4) multifamily programs is defined as projects meeting *either* of the following two definitions:

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1. **Rent and income restrictions must be imposed, monitored and enforced by a governmental agency for at least 15 years post-closing by means of a recorded Regulatory Agreement. The Regulatory Agreement must restrict:**

    a. 20% of units at rents affordable at 50% of area median income ("AMI") levels; *or,*
    b. 40% of units at rents affordable at 60% of AMI.

    AMI levels vary by project location and can be determined online, or we can assist upon request.

    Underwritten rents must also be at least 10 percent below comparable market rents, as determined by an appraiser (if rents have no discount to market, the project will be treated as market rate in underwriting).

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2. **To qualify as affordable via Section 8, the project must have a project-based Housing Assistance Payment ("HAP") contract covering at least 90% of the units with a minimum remaining term of 15 years.**

The following chart shows the impact on underwriting:

Housing Type	*Minimum Loan to Cost / Value**	*Minimum DCR*	*Minimum Vacancy Factor*
Market Rate	87% LTC/V*	1.15x	7%**
Affordable *(see #1 above)*	90% LTC/V*	1.11x	5%**
90%+ Section 8 *(see #2 above)*	90% LTC/V*	1.11x	3%**

**Cash out refinances under the 223(f) program will always be limited to 80% LTV regardless of affordability.*

***If a project's current vacancy is higher than these figures, the actual vacancy % will be used.*

There is a rarer third definition of "Affordability" that is *only applicable* to 221(d)(4) new construction or substantial rehabilitation projects which was launched in early 2025 by HUD:

3. For projects where at least 50% of the units will target rents that are affordable at 120% AMI or less, HUD will allow the following underwriting criteria to be used:

Housing Type	*Minimum Loan to Cost*	*Minimum DCR*	*Minimum Vacancy Factor*
"Middle Income"	90% LTC	1.11x	7%

All targeted units must be memorialized by a use restriction and must be monitored by a state or local government entity annually. A minimum use restriction period of 10 years is required to ensure that middle income tenants benefit from this policy. However, because individual state and local programs vary widely, HUD Directors have waiver authority to approve a term of less than 10 years when enhanced benefits to middle income tenants exist (ex. the proposed use restriction is less than 10 years, but targeted units exceed the 50% minimum.) In no case, however, should the use restriction agreement be less than 5 years.

Please note, in addition to the AMI restriction, if the project is not participating in a state or local initiative that defines what affordable/workforce housing is in that area (that is available to all developers in the area), and does not offer monitoring/compliance mechanisms, it will be considered a market rate transaction:

A major principle of the Middle Income initiative is that projects are eligible based on their participation in, and qualification by, an existing state or local middle-income program or Military Rental Partnership Program (RPP). By aligning the Middle Income ML with these initiatives, projects are ensured to meet an identified state , local, or service member need, without further analysis of a rent advantage by HUD.

FHA is relying on and supporting these state and local initiatives that have:

- Identified a genuine local need for middle-income housing.
- Developed incentives to support the development of such housing.
- Established clear guidelines regarding the percentage of units and the AMI levels that qualify under their middle-income definition.
- Instituted a process to monitor ongoing compliance, through a formal use restriction.

It is important to note that HUD's review of the application will include an evaluation of the state and local program itself. It must be an existing program with clear objectives, standards, incentives and wide availability to developers. In contrast, arrangements that appear to be a particular partnership between one developer and local unit of government such as a housing authority do not qualify, even if the AMI targets are technically achieved. The legitimacy of FHA's Middle Income initiative program is rooted in helping existing state or local programs meet their community needs and is open to all developers in that community.