

# Mortgage Insurance for Rental Housing: Section 207

## **Summary:**

Section 207 Program insures mortgage loans to finance the construction or rehabilitation of a broad range of rental housing. Section 207 mortgage insurance, although still authorized, is no longer used for new construction and substantial rehabilitation. It is however, the primary insurance vehicle for the Section 223(f) refinancing program. Multifamily new construction and substantial rehabilitation projects are currently insured Section 221(d)(4) programs.

## **Purpose:**

Section 207 insures lenders against loss on mortgage defaults. The intent of the program is to increase the supply of quality and reasonably priced rental housing for middle-income families.

## **Type of Assistance:**

FHA mortgage insurance for HUD-approved lenders.

## **Eligible Activities:**

Section 207 mortgage insurance may be used to finance the construction or substantial rehabilitation of detached, semidetached, row, walk-up, or elevator type structures with 5 or more units. A project is eligible for mortgage insurance if the sponsor can demonstrate that there is a definite market demand, that the project is economically self-sufficient, and that financing is secure. The program has statutory per unit mortgage limits, which vary according to the size of the unit, the type of structure, and the location of the project. There are also loan-to-value and debt service limitations. The mortgage is limited to 90 percent of HUD appraised value.

## **Eligible Borrowers:**

Eligible mortgagors include investors, builders, developers, and others who meet HUD requirements for mortgagors.

## **Eligible Customers:**

All families are eligible to occupy dwellings in a structure whose mortgage is insured under this program, subject to normal tenant selections.

## **Application:**

The sponsor has a pre-application conference with the local HUD Multifamily Hub or Program Center to determine preliminary feasibility of the project. The sponsor must then submit a site appraisal and market analysis application (SAMA) (for new construction projects), or feasibility application (for substantial rehabilitation projects). Following HUD's issuance of a SAMA or feasibility letter, the sponsor submits a firm commitment application through a HUD-approved lender for processing. Considerations include market need, zoning, architectural merits, capabilities of the borrower, availability of community resources, etc. If the proposed project meets program requirements, the local Multifamily Hub or Program Center issues a commitment to the lender for mortgage insurance.

## **Technical Guidance:**

Section 207 was authorized by the National Housing Act. Regulations are found at 24 CFR, Section 200 and Section 207. The basic program instructions are in HUD Handbook 4400.1 - Project Mortgage Insurance - Basic Section 207 Instructions available on [HUDclips](#). The program is administered by the Office of Multifamily Housing Programs, Office of Production, Program Administration Division.

## **Program Accomplishments:**

In fiscal year 2015, the Department did not insure any mortgages under this section. Developers and lenders prefer Section 221(d)(4) whose terms are more advantageous.