

# USDA RHS 538 GUARANTEED RURAL RENTAL HOUSING

## NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION OF MULTIFAMILY OR SENIOR HOUSING

Provides mortgage insurance to facilitate the **new construction or substantial rehabilitation of multifamily or independent senior rental housing units**, or **the acquisition, revitalization, repair and transfer costs of existing direct Section 515 housing**. This program **provides for both construction and permanent financing or permanent financing only**. The permanent financing must take out the construction loan.

The program allows for existing RHS 538 GRRHP loans to be modified and lower the interest rate only when market conditions are favorable and the existing prepayment penalties have expired or are reasonable to be paid.

As of May 3rd, 2017 the program now allows for existing RHS 538 GRRHP loans to be refinanced utilizing the RHS 538 GRRHP program.

### REQUIREMENTS

- Project must be in a designated "Rural Area," as defined by USDA-population must be less than 25,000. (See USDA RHS Eligibility Map [here](#).)
- Tenant income restrictions of 115 percent of area median income upon initial occupancy. Rents plus tenant paid utilities may not exceed 30 percent of 100 percent of area median income.
- The property must comply with all RHS 538 GRRHP requirements until the loan maturity date, even if the loan is paid in full prior to such maturity date. A waiver may be obtained if affordable housing needs are met in the market.
- **Substantial Rehab is a minimum of \$6,500 per unit in repairs.**
- **Borrowers** may be for-profit, nonprofit, individuals, partnerships, state or local public agencies, LLCs, trusts or Indian tribes. Can be a single asset and single purpose entity, or a multiple purpose entity (i.e. portfolio purchase and sub-substantial rehabilitation of multifamily housing) as acceptable to RHS.
- **Occupancy Requirement:** Prior to closing of the RHS 538 GRRHP Permanent Loan the project must reach sustaining occupancy of 90% Occupancy for 90-Consecutive Days, unless the 2% Conversion/Lease Up Reserve is posted on or prior to closing (see reserves below for more details), and any other requirements conditioned by Rural Development in its Conditional Commitment.

### TERMS

<b>AMORTIZATION &amp; TERM</b>	<p>The <b>maximum mortgage term is the lesser of 40 years (a minimum of 25 years)</b>, or the remaining economic life of the project, fully amortizing, 30/360 interest calculation. Amortization begins at the conversion to the permanent loan/final endorsement. The term limit applies to the construction/renovation and permanent phase.</p> <p>The <b>maximum amortization is 40 years</b> and the program does allow for a balloon payment if the term and amortization is different.</p>
<b>LOAN SIZE</b>	There is no minimum or maximum loan size.
<b>MAXIMUM MORTGAGE</b>	<p>In general, the maximum loan amount is limited to the lesser of (less the amount of grant/loan funds attributable to replacement cost items):</p> <ul style="list-style-type: none"> <li>• Up to the lesser of <b>90 percent</b> loan-to-cost or <b>loan-to-value ratio</b> for a for-profit enterprise, and up to the lesser of 97 percent loan-to-cost or loan-to-value ratio for nonprofit enterprise.</li> <li>• A mortgage amount supported by <b>debt service coverage of 115 percent</b>.</li> <li>• Statutory per-unit limitation.</li> <li>• <b>Permanent only loans</b> securing GNMA mortgage-backed securities are limited to <b>70 percent or less loan-to-total development cost</b> unless the project is an existing Rural Development 515 and then the program maximum loan-to-cost and loan-to-value criterion are applicable.</li> <li>• <b>Construction and Permanent loans</b> are currently limited by Rural Development to a <b>70 percent or less loan-to-total development</b> cost unless the project is an existing Rural Development 515 and then the program maximum loan-to-cost and loan-to-value criterion are applicable.</li> </ul>
<b>INTEREST RATE</b>	The construction and permanent loan interest rate is fixed at initial closing for the life of the loan. The permanent loan only will be fixed for the life of the loan. During construction, the loan is interest only.
<b>ASSURANCE OF COMPLETION</b>	A payment and performance bond is required. As an option, RHS and Lender may accept a completion assurance agreement secured by a cash deposit or Letter of Credit in the amount of 25 percent of the cost of construction or rehabilitation.
<b>RECOURSE</b>	This is a non-recourse loan. Mortgagor assumes no personal liability.
<b>PREPAYMENT</b>	Variations are possible based upon market conditions and borrower preferences. Typically a 10-year term. Years one and two are locked out then declining 1 percent per year starting in year three at 8%-7%-6%-5%-4%-3%-2%-1%-0%.

## TERMS (CONT'D.)

<b>ASSUMABILITY</b>	The loan can be fully assumable
<b>LABOR STANDARDS</b>	This program is not subject to Davis-Bacon wage rates and reporting requirements.
<b>REPLACEMENT RESERVES</b>	A \$1,000 per unit balance must be attained by the end of year 3 from when the Permanent Loan closes or converts.
<b>ESCROWS</b>	Escrows for taxes, insurance, replacement reserves, and the RHS Annual Guarantee Fee are required. Escrow payments will begin upon amortization.
<b>SECONDARY FINANCING</b>	A loan can be combined with other financing sources such as: Low Income Housing Tax Credits, ARRA funds, HOME grant or loan, state or local assistance (including tax-exempt bond financing) or secondary financing.
<b>CONDITIONAL COMMITMENT</b>	The conditional commitment will have a term of up to 24 months.
<b>FORWARD RATE LOCK</b>	FOR PERMANENT ONLY LOAN - The ability to provide a forward Permanent Only Loan with an interest rate lock of up to 24-months once the RHS Conditional Commitment is received. <i>Please discuss with Bellwether Enterprise in more detail.</i>

## TYPICAL FEES

<b>DEVELOPER FEE</b>	A developer fee is allowable under this loan program.
<b>RHS INITIAL FEE</b>	1.0 percent of the RHS guarantee amount, due at the closing of the loan transaction to RHS (subject to FY NOFA). $(\text{Loan amount}) \times (.90 \text{ RHS Guarantee}) \times (0.1 \text{ FHS}) = \text{RHS Initial Fee}$
<b>RHS ANNUAL FEE</b>	0.5 percent of the outstanding principal amount of the loan as of December 31 of each year and due January 1 of each year to RHS (subject to FY NOFA). $(\text{Loan Balance}) \times (.90 \text{ RHS Guarantee}) \times (.005 \text{ RHS}) = \text{RHS Annual Fee}$
<b>LENDER FINANCING</b>	To be determined and discussed as the Lender fees and costs are determined by the size of the loan, the loan type and complexity of the transaction.
<b>LENDER PROCESSING FEE</b>	Typically Between \$3,500 to \$5,000 paid to the lender upon execution of the engagement letter.
<b>THIRD PARTY EXPENSE DEPOSITS</b>	Market Study, Appraisal, Phase I with applicable level of NEPA, Capital Needs Assessment (CNA) for substantial rehabilitation projects and a Cost Estimate and Plan and Spec Review Report are estimated at \$33,000 collected at application.
<b>INSPECTION FEE</b>	The third-party construction inspection fee is approximately \$1,500 per inspection and typically will occur once a month (if required).
<b>GOOD FAITH DEPOSIT</b>	Typically, 0.50 percent of mortgage amount for a construction and permanent loan or immediate permanent loan, and an estimate between 2.00 percent to 3.00 percent for a permanent forward rate lock. Good Faith Deposits are due upon acceptance of the RHS conditional commitment and refunded at closing.

## RESERVES

<b>OPERATING &amp; MAINTENANCE RESERVE (O&amp;M)</b>	The borrower must contribute initial operating capital equal to at least 2 % of the loan amount and must be funded by the mortgagor with cash or a letter of credit at the closing of the transaction.
<b>CONSTRUCTION CONTINGENCY RESERVE</b>	A Construction Contingency Reserve in the amount of 2 percent of the construction contract is required to cover additional costs during construction and must be funded by the mortgagor with cash at the closing of the construction transaction.
<b>CONVERSION/LEASE-UP RESERVE</b>	An Operating Escrow Reserve in the amount of at least 2% of the total development cost or appraised value (whichever is greater) may be required to cover operating losses until sustaining occupancy is reached (90% occupancy for 90 days), will then allow conversion to the permanent loan, and must be funded by mortgagor with cash approximately 30-days prior to the issuance of the first Certificate of Occupancy.

**Please contact Bob Morton (Senior Vice President & Director, RHS Program) for more detailed information regarding the RHS 538 GRRHP program. You can reach Bob Morton at 219-380-5956 and at [bmorton@bwecap.com](mailto:bmorton@bwecap.com).**