

# Developers & USDA Rural Development

The USDA helps developers build affordable multi-family housing in rural areas



*"This program is an example of our commitment to increasing the level of credit available to developers in rural areas."*

- Paul Venosdel  
Rural Development State Director

## About the "538" Program

The Section 538 Program is designed for developers interested in developing multi-family housing in rural areas. Its purpose is to encourage commercial financing of rural rental housing, providing affordable housing for low & moderate-income people.

This program can be used for many types of developments, including, but not limited to, senior housing, moderate-income family rental housing, assisted living, affordable rental housing and farm labor housing.

This loan is lender-driven. USDA guarantees the loan rather than lending directly. A commercial lender requests the 538 guarantee, and, if approved, it makes (and services) the loan.

The USDA will provide a guarantee of up to 90% on approved loans.

## Program Features

- Compatible with other financing sources, including with 9% tax credits, bonds & HOME funds.
- Can be amortized for up to 40 years.
- Tax-exempt financing is a permitted source of capital for the loan being guaranteed.
- Davis-Bacon wage requirements are *NOT* activated.
- Low fixed rates are provided.
- No restriction on "return to owner."
- Loan may be prepaid or assumed.
- Affordability criteria is not unduly burdensome.
- The guarantee can be issued on a combined construction/permanent loan or simply on the permanent, take-out loan.
- Can work directly with your preferred lender.

## Authorized Loan Purposes

- Development of new rental housing, including land, on-site & off-site improvements, office & maintenance buildings, community & recreation facilities, parking, landscaping, fencing, appliances, etc.
- Acquisition of existing rental housing when there is at least \$15,000/unit of rehab also involved.
- Loan fees & costs (including USDA fees), professional services, market study costs, developer fees, and construction interest.
- Debt refinancing may be authorized on land acquisition and other incurred charges that are integral to the development.

## Affordability Criteria

- Eligible tenants are those with incomes 115% of the Area Median Income. Once a tenant is admitted, there is no further income restriction nor any requirement for tenant income verifications.
- Average rent + utility allowance must be  $\leq 30\%$  of Area Median Income.
- Maximum rent + utility allowance must be  $\leq 30\%$  of 115% of Area Median Income.
  - ❖ Please note that these affordability requirements must be established in a deed restriction and remain in effect for the full term of the loan, even if the loan is prepaid.

## Project Eligibility

- Attached or detached, semi-detached, row houses, modular or manufactured structures are permitted.
- Project must be in rural area – typically in unincorporated areas and cities of less than 10,000-20,000 population.
- Applicant must have site control at time of pre-application.
- Projects must consist of at least 5 rental units.
- Assisted living facilities are eligible (non-medical only).

## Size of Loans

- No Minimum. No Maximum.
- For-profit borrowers: 90% of projects' appraised value or 90% of total development cost.
- Nonprofit & public borrowers: 97% of project's appraised value or 97% of total development cost.
- Maximum loan per dwelling unit must comply with §207(c)(3) of the National Housing Act costs after an (up to a 240%) locality adjustment. (Contact the USDA for current figures and locality adjustments).

## Interest Rate, Structure and Fees

- Rate: Negotiated by lender & applicant – a fixed rate is required.
- Term: Minimum – 25 years. Maximum – 40 years. (*Note: The term of the loan also fixed the length of the affordability restrictions.*)
- Structure: Amortized up to 40 years. Balloons are permitted.
- Fees: Lender's reasonable and customary fees – negotiated by lender and applicant. USDA charges a \$2,500 application fee. In addition, there is a one-time guarantee fee equal to 1% of the guaranteed amount due at guarantee closing, plus an annual servicing fee of  $\frac{1}{2}\%$  on the loan balance owing as of each 12/31.



Rural Development,  
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