

Lenders & USDA Rural Development

Lenders & USDA Partner to Provide Affordable Rural Multi-Family Housing

About the “538” Program

Park West Apartments Mountain Home, Arkansas



*Picture 1, Park West Apartments
These beautiful, 36 multi-family rental units in sought-after Mountain Home, Arkansas, were built for persons 55 and older. The average rent of \$490 per month, including utilities, is an affordable option for senior living in this rural community.*



Picture 2, Park West Apartments, located in Mountain Home, Arkansas, cost \$2.2M to build. Financing for the project includes Tax Credits, HOME funds and \$1,340,000 in commercial loan funds with a section 538 guarantee. The Section 538 Interest Credit brought down the borrower’s interest rate to 5.46%.

The purpose of the Section 538 Guaranteed Rural Rental Housing Program is to increase the supply of affordable rural rental housing through the use of loan guarantees that encourage partnerships between Rural Development, private lenders and public agencies. The housing is available to families or persons whose incomes at time of initial occupancy do not exceed 115% of median income.

Eligible uses of loan proceeds include new construction costs of the project, acquisition with moderate rehabilitation of at least \$6,500 per unit and revitalization of Section 515 properties. Eligible housing types include family, senior and farm labor housing properties.

“The Section 538 program is the best financing vehicle for a Section 42 Low Income Tax Credit project that I know. The 40 year fully amortizing loan works well to reduce debt service costs. We have used the program on a number of projects and our borrowers are very satisfied with the result.”

Michael F. Petrie, CMB

*Immediate Past Chairman, Mortgage Banker’s Association
President, P/R Mortgage & Investment Corporation*

Program Features

- Low equity requirements – 10% equity for profit oriented entities, 3% equity for nonprofits
- Compatible with other financing sources, including 9% tax credits, bonds, HOME funds and HUD vouchers
- The loan can be amortized for up to 40 years
- Flexibility of using a 25 year loan term with 40 year amortization
- Source of capital may be proceeds from tax-exempt financing
- No requirement for compliance with Davis-Bacon Wage Act
- Best-negotiated interest rate between borrower and lender
- Interest rate buy-down with interest credit
- No restriction on “return to owner”
- Affordability criteria are not unduly burdensome, tenant income may increase beyond 115% of area median income after initial occupancy
- There is no asset restriction for seniors
- Eligible loan types for the USDA guarantee include construction/permanent loan or the permanent take-out loan

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 with rehabilitation of existing properties when rehabilitation is at least \$6,500 per unit
- Loan fees & costs (including USDA and tax credit application fees), professional services, market study costs, developer fees and construction interest

Affordability Criteria

Affordability restrictions below must be established as a deed restriction for the full term of the loan, even if the loan is prepaid:

- Eligible tenants are those with incomes at or below 115% of the area median. After initial occupancy, there are no further income restrictions or any requirement for tenant income certification
- Maximum individual rent + utility allowance must be equal to or less than 30% of 115% of area median income
- Average project rent + utility allowance must be equal to or less than 30% of 100% of the area median income

Project Eligibility

- Attached or detached, semi-detached, row houses, modular or manufactured structures
- Project must be in a rural area – typically in unincorporated areas and cities with a population less than 20,000
- Project must consist of at least 5 units

Size of Loans

- No minimum or maximum loan size
- For-profit borrowers – 90% of project's appraised value or total development cost, whichever is less
- Nonprofit borrowers or public bodies – 97% of appraised value or total development cost, whichever is less

Interest Rate, Structure, and Fees

- Interest Rate – best fixed rate negotiated rate between borrower and lender
- Loan Term – minimum of 25 years and a maximum of 40 years
- Structure – amortized up to 40 years, 25 year balloons are permitted
- Fees – Lender's reasonable and customary fees negotiated between lender and borrower;
USDA charges a \$2,500 application fee, a one-time guarantee fee equal to 1% of guaranteed loan amount due at loan closing, and an annual renewal fee equal to 50 basis points on the outstanding loan balance as of December 31 of each year

Regulations (7 CFR 3565) are available online at: <http://www.rurdev.usda.gov/reg/hblist.html#hbw6>

For further information contact the Rural Development Office in the state where the project is or will be located. Contact information can be found at the following web site: http://www.rurdev.usda.gov/recd_map.html



Committed to the future of rural communities.