

**RURAL DEVELOPMENT 538 MULTIFAMILY PROGRAM  
USDA GUARANTEED LOAN PROGRAM**

Enterprise provides financing for multifamily rental properties targeted for persons living in rural areas with moderate incomes within 115 percent of the area median income (AMI).

**PROPERTY  
TYPES**

Rental communities can be garden style, walkups, single-story, and/or mid-rise construction. Site and interior amenities would include finishes and appliances that are typical of B – B+ properties. Clubhouses, pools, tennis courts, garages, etc. are permitted if market-driven.

Projects must be located in an eligible rural area, defined as follows:

- Open country which is not part of or associated with an urban area.
- Any town, village, city or place, including the immediate, adjacent, densely-settled area, which is not part of or associated with, an urban area and which has:
  - An area with a population of 10,000, or less if it is rural in character;
  - An area with a population in excess of 10,000 but not in excess of 20,000, that is not contained within a Metropolitan Statistical Area (MSA), and has a serious lack of mortgage credit for low and moderate income households; or
  - An area classified as a rural area prior to October 1, 1990, (even if within a MSA), with a population exceeding 10,000, but not in excess of 25,000, which is rural in character and has a serious lack of mortgage credit for low- and moderate-income families.

**ELIGIBLE  
BORROWERS**

- Credit-worthy, for-profit, single asset entities
- Principals must demonstrate some prior experience in developing, constructing, owning, or operating multifamily rental properties.
- The mortgage entity can be an S or C Corp, LLP or a General/Limited Partnership.
- The Borrower must demonstrate the financial resources to meet the specific requirements of the transaction.

**EQUITY  
REQUIREMENT**

For-profit mortgagors must commit equity capital in an amount equal to at least 10% of the total development costs. Non-profit mortgagors must commit at least 3%.

**WORKING  
CAPITAL**

The borrower must commit working capital of 2% of the construction contract for construction contingencies and up to 2% of the loan amount for an operations and maintenance reserve (O & M). The specific amount of the O & M will be determined by the Lender. These items are normally secured by a L.O.C. and can be drawn from for the intended purpose.

**ELIGIBLE USES OF  
LOAN PROCEEDS**

The proceeds of a guaranteed loan may be used for the following purposes:

- New construction, rehabilitation of buildings, and acquisition costs when related to the rehabilitation.
- Acquisition of existing buildings, when approved by the Agency, for projects that serve a special housing need.
- Development of on-site and off-site improvements essential to the use of the property.
- Development of related facilities such as community space, recreation, storage, or maintenance structures.
- Construction of on-site management or maintenance offices and living quarters for operating personnel for the property being financed.
- Purchase and installation of appliances and certain approved decorating items, such as window blinds.

- Development of the surrounding grounds, including parking, landscaping, and fencing.
- Costs associated with commercial space provided that the property is designated primarily for residential use. The commercial space does not exceed 10 percent of the gross floor area of the residential units and common areas, and the commercial income does not exceed 10 percent of total project income, unless a higher level is specifically approved by the Agency.
- Costs for feasibility determination, loan application fees, appraisals, environmental studies, professional fees or other fees determined by the Agency to be necessary to the development of the project.

**TERMS & AMORTIZATION**

Up to a 40-year, fully amortizing loan not to exceed the remaining economic life of the project.

**INTEREST CREDIT REDUCTION**

Partial interest rate reductions are available on a case-by-case-basis. This interest credit will generally reduce the interest rate by 100 to 200 basis points for up to \$1.5 million in mortgage amount.

**LOAN TO VALUE**

90% of property value or 90% of development cost, whichever is less. Non-profit borrowers may borrow up to 97% of the lesser of total development cost or value.

**RECOURSE**

Lender determines whether a loan will be a recourse loan on a case-by-case basis.

**DEBT SERVICE COVERAGE**

Typically 1.15. Lender does have discretion to recommend a lower DSC on a case-by-case basis.

**TYPICAL FEES**

Lender application	\$5,000
USDA application	\$2,500
Lender financing (Construction & Permanent)	2.0%/ Min. \$35,000
Lender asset management (loan loss)	.5%
Third-party reports	\$10,000 -\$20,000

**PRICING**

Typically 250 B.P. over Long Term Monthly AFR.

**CONSTRUCTION TO PERMANENT**

The permanent loan guaranty will generally go into effect when the project achieves 90% occupancy for three months at pro forma assumptions for rent and debt service. In lieu of meeting the minimum level of occupancy, an escrow may be established to meet the deficiency in rental income.

**RENTS**

Rents on individual units cannot exceed 30% of 115% of AMI adjusted for family size and including tenant-paid utilities allowance. The average rent for the entire project may not exceed 30% of 100% of AMI.

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