



MULTIFAMILY HOUSING

NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION USDA RHS 538

ELIGIBILITY

- ❖ Borrowers may be for-profit, not-for-profit, individuals, partnerships, state or local public agencies, LLCs, trusts, or Indian tribes.

REQUIREMENTS

- ❖ Project must be in a designated “Rural Area,” as defined by USDA—population must be less than 35,000.
- ❖ Tenant income restrictions of 115% of area median income upon initial occupancy.
- ❖ Rents plus tenant paid utilities may not exceed 30% of 115% of area median income, and average rent for project including utilities may not exceed 30% of 100% of area median income.
- ❖ Property must contain at least five units.

ESCROWS

- ❖ Full escrows for property taxes and all applicable insurance are funded at closing.
- ❖ A Replacement Reserve account must be established at closing
- ❖ A Construction Contingency Escrow in the amount of 2%.
- ❖ An Operating Escrow Reserve in the amount of 2% of the total development cost or appraised value (whichever is greater) may be required to cover operating losses until sustaining occupancy is reached, and must be funded by with cash or letter of credit at closing.

FEATURES

- ❖ This is a non-recourse loan.
- ❖ Security: Assets of the borrowing entity.
- ❖ An existing USDA 515 loan can be subordinated to a new USDA 538 mortgage.
- ❖ Long loan term up to 40 years
- ❖ Low fixed interest rate, fully amortizing.
- ❖ The program can be used to guarantee permanent financing, or a combination construction and permanent loan.
- ❖ Fully assumable subject to CMI and USDA approval.
- ❖ A loan can be combined with other financing sources such as: Low Income Housing Tax Credits, HOME grant or loan, State or local assistance (including tax-exempt bond financing) or a second bank loan.
- ❖ Debt service coverage ratio of 1.15.
- ❖ Not subject to Davis-Bacon requirements.