

# Section 538 Guaranteed Rural Rental Housing Program (GRRHP)

## LOAN PRODUCTS

- Up to 90% guarantee
- Interest credit (interest rate buy down)

## ELIGIBLE PURPOSES

- New construction and acquisition with rehabilitation (\$6,500/ unit min rehab)
- Take-out permanent financing and combination construction/permanent loans

## ELIGIBLE USES

- All hard costs
- Soft costs - professional services, bond fees, developer's fees, land acquisition & development, cost of financing

## ELIGIBLE BORROWERS

- Individuals partnerships, non-profit or for-profit corporations
- Limited liability companies and trusts
- State and local agencies, Indian Tribes

## ELIGIBLE AREAS

- Rural areas with populations up to 20,000

## ELIGIBLE LENDERS

- Lenders eligible for approval include HUD, Fannie Mae, and Freddie Mac approved multifamily lenders
- Lenders with multifamily lending experience and demonstrated capacity to provide all aspects of loan processing, and asset management functions, including disposition.

## BENEFITS TO LENDERS

- 90% protection against loan losses
- Credit towards fulfillment of Community Reinvestment Act requirements
- Secondary mortgage market participation
- Loans exempted from lender's legal lending limits
- Enables lenders to expand their portfolios, while improving the economic health of rural communities

## LOAN FEATURES

### *Loan to Value (LTV)*

- 90% or less for loans made to for-profit entities
- 97% or less for loans made to non-profit entities

### *Interest Rate*

- Best negotiated rate between lender and borrower fixed over the loan term
- Buy down of interest rate with annual interest credit payments up to the Applicable Federal Rate

### *Maximum Repayment Terms*

- 25 year min., 40 year max.
- 25 year min. for balloon with 40 year amortization

### *Maximum Loan Amount*

- No limit

## PROGRAM GUIDELINES

- Available to families or persons whose incomes at time of initial occupancy do not exceed 115% of median income
- Rent (including tenant-paid utilities) for any unit at initial occupancy cannot exceed 30% of 115% of area median income, adjusted for family size
- Average rent (including tenant-paid utilities) for all units in a project cannot exceed 30% of 100% of area median income

## GRRHP REGULATIONS & FORMS

- Regulations are available online at: <http://rdinit.usda.gov/regs/hblist.html#hbw6>
- Forms are available online at: <http://rdinit.usda.gov/regs/formtoc.html>
- The application process and competitive selection criteria will be described in an annual Notice of Funding Availability (NOFA) published in the Federal Register





<http://www.rurdev.usda.gov/vt/>

# Rural Development Housing Facts

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## **GUARANTEED RURAL RENTAL HOUSING PROGRAM (SEC. 538)**

### **Purpose**

To increase the supply of affordable rural rental housing, for low- to moderate-income tenants, through the use of loan guarantees and partnerships between RHS and approved lenders.

### **Eligible Occupants**

Families, individuals, senior citizens (age 62 or over) and persons with a disability whose income at the time of initial occupancy does not exceed 115 percent of the median income of the area.

### **Eligible Borrowers**

Individuals, corporations, non-profits, partnerships, limited liability companies, or any organization deemed eligible by the Agency.

### **Eligible Lenders**

Lenders eligible for approval include FHA, Fannie Mae, and Freddie Mac approved multifamily lenders.

Other lenders with multifamily lending experience may also be approved, such as:

- Federal Home Loan Bank system members, and
- State or local Housing Finance Authority (HFAs)

### **Terms**

Loan term not to exceed 40 years at a fixed rate agreed upon by the applicant and the lender that does not exceed the maximum allowable rate established by the Administrator.

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## Interest Rates

Rural Development will accept the best rate negotiated between the lender and prospective borrower. Interest rates must be fixed over the term of the loan. Up to a 40-year term is allowed. Balloon mortgages with a minimum 25-year term are eligible.

## Primary Fees

Application Fee: along	\$2,500 to be submitted within 90 days of selection with the full application
Initial Guarantee Fee:	1% of principal amount of loan
Annual Guarantee Fee:	1/2% of outstanding principal

## Loan Limitations

- Maximum loan for nonprofits and Indian tribes is 97% of the development cost or appraised value, whichever is less.
- Maximum loan for a for-profit entity is 90% of the development cost or appraised value, whichever is less.

## Loan Purpose

Development costs of rental housing and related facilities (New Construction Only) in communities under 20,000 population. Acquisition and rehabilitation of an existing structure is permitted if rehabilitation costs are at least \$6,500 per unit.

## Applications

Request for applications can be made in accordance with the Notice of Funding Availability (NOFA), published annually after October 1<sup>st</sup>.

## Subsidies

Each fiscal year (beginning October 1st), the Agency will provide assistance in the form of interest credit to the extent necessary to reduce the effective rate of interest to the borrower. See Notice of Funding Availability (NOFA) for specific amounts to be awarded each year.

## Leveraging

It is anticipated that applicants will utilize other affordable housing programs in conjunction with the Rural Development Guarantee.

## Loan Servicing

Lenders will be responsible for the full range of loan management, servicing and property disposition activities.