

## USDA GUARANTEED RURAL RENTAL HOUSING PROGRAMS

### Section 538 - Apartment New Construction/ Substantial Rehabilitation

Lument is a Section 538 Guaranteed Rural Rental Housing Program (GRRHP) lender that actively underwrites, funds and services multi-family housing loan guarantees provided by the United States Department of Agriculture (USDA).

#### BENEFITS

Provides mortgage insurance for the new construction and substantial rehabilitation of apartment projects, including independent living projects for seniors (age 55 years and older with no services). This program provides for both construction and permanent financing as well as refinance of existing 538 guaranteed loans. No Davis-Bacon requirements.

<b>ELIGIBLE BORROWERS</b>	Profit motivated or nonprofit single purpose entities.
<b>ELIGIBLE ASSET TYPE</b>	<p>Properties subject to the below conditions:</p> <ul style="list-style-type: none"> <li>• Rural areas and towns with 35,000 or fewer people.</li> <li>• An area classified as rural prior to October 1, 1990 (even if within a MSA) with a population greater than 35,000 (previous rural area).</li> <li>• A Section 515 revitalization property that will use Section 538 Guaranteed Rural Rental Housing Funds (permissible in areas that are no longer rural).</li> <li>• Project eligibility is determined by a mapping guide provided by USDA.</li> </ul>
<b>INCOME/RENT LIMITS</b>	<ul style="list-style-type: none"> <li>• Tenant income cannot exceed 115% of area median income (AMI) adjusted for family size.</li> <li>• The average rent for the entire project, including tenant-paid utilities, cannot exceed 30% of 100% of AMI adjusted for family size. No single unit can exceed 30% of 115% of AMI.</li> <li>• The property must remain affordable for the loan term. Even if the loan is prepaid restrictive language must be recorded in the deed or any other instrument that conveys with the property if the mortgage is prepaid.</li> </ul>
<b>LOAN TERMS</b>	<ul style="list-style-type: none"> <li>• The lesser of 40 years (including the construction period) or 100% of remaining useful life. The minimum loan term is 25 years. Mismatch of term and amortization is allowed (subordinate debt cannot balloon during the loan term). Loans can be I/O during the construction period (not to exceed 24 months) but then amortization term is reduced by the I/O period.</li> <li>• DCR of 1.15.</li> <li>• LTV of 90% based on restricted rents.</li> <li>• 70% of total development costs for permanent only loan.</li> <li>• 70% of total development costs for construction to permanent loan.</li> <li>• Statutory per unit limits.</li> <li>• 100% of mortgageable transaction costs less the portion of grants, public loans and tax credits applied to mortgageable costs.</li> <li>• When combining a 538 loan with a 515 the restriction on total development costs is waived.</li> </ul>
<b>OCCUPANCY</b>	Maximum underwritten physical occupancy of 93% for properties without rental assistance and 95% for properties with rental assistance <sup>1</sup> .
<b>FUNDING</b>	Qualifies for Ginnie Mae guaranteed mortgage-backed securities, direct placement or may be used to credit enhance tax-exempt bonds.
<b>INTEREST RATE</b>	Subject to market conditions. The construction and permanent financing interest rate is set at initial closing. Forward rate locks available subject to market conditions.
<b>USDA GUARANTEE FEE</b>	The annual Guarantee fee is .50% of the outstanding loan amount.

<b>PREPAYMENT</b>	Typically no lock out with a 10 year declining pre-pay (10,9,8,7,6,5,4,3,2,1). Alternative structures can be negotiated.
<b>APPLICATION</b>	A NOSA is first submitted to the State Office. An accepted NOSA reserves the amount of the loan obligation.
<b>TIMING</b>	Section 538 processing usually takes about 4 to 5 months (subject to deal specifics).
<b>USDA FEES</b>	<ul style="list-style-type: none"> <li>• 0.90% of loan amount (non-refundable) is paid to USDA at the time of closing.</li> <li>• An Operating &amp; Maintenance Reserve equal to 2% of the loan amount is required at closing.</li> <li>• For construction deals a Contingency Reserve of 2% of the construction contract is required at closing.</li> </ul>
<b>REPLACEMENT RESERVES</b>	\$250 per unit per annum or as determined by a 20 year capital needs analysis. \$1,000/unit should be in RR account by the end of year 3.
<b>PERSONAL LIABILITY</b>	None. The USDA loan is non-recourse; however, identified principal(s) will be required to sign "Bad Boy" carve outs at closing.
<b>ASSUMABLE</b>	Yes, subject to USDA and lender approval.
<b>SECONDARY FINANCING</b>	Subject to USDA and lender approval.
<b>TERRITORY</b>	Nationwide.

**\*\*Terms outlined above reflect the Program Requirements as of 10/01/17\*\***

Lument is a Section 538 Guaranteed Rural Rental Housing Program (GRRHP) Lender and actively provides financing utilizing a USDA guarantee nationwide pursuant to 7CFR Part 3565 & Handbook-1-3565.

In its prequalifying review, Lument will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.

<sup>1</sup>Rental assisted defined as: properties that have at least 90% of their units supported by a rental assistance contract provided by USDA or a Section 8 project based HAP contract.