



United States
Department of
Agriculture

Rural Development



Guaranteed Rural Rental Housing Program

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Section 538 GRRHP Guidance

- 7 CFR Part 3565 and accompanying Handbook
- Housing Act of 1949, as amended
- <https://www.rd.usda.gov/publications/regulations-guidelines>



Section 538 GRRHP



- Historical Information
- Eligible Rural Areas (20,000)
- Tenant Information
- Borrower Eligibility
- Property Requirements
- Financing Terms



Section 538 Types of Guarantee

Option 1 – Permanent Financing

Option 2 – Construction/Perm

Option 3 – Continuous Guarantee

Construction
Only



Eligible Uses of Loan Proceeds

- New construction and associated costs
- Rehabilitation and acquisition costs
- (when related to the rehabilitation)
- Rehabilitation of existing multi-family units (stay-in-owner)
- All rehabs must meet the minimum \$6,500 per unit



Ineligible Uses of Loan Proceeds

- Specialized Equipment for training or therapy
- Cooperative Housing
- Student Housing
- Housing in military impact areas
- Housing that serves primarily temporary and transient residents
- Institutional type homes that require licensing as a medical care facility
- Operating capital for central dining facilities
- Refinancing of an outstanding debt



Section 538 GRRHP Portfolio at a Glance

Closed Loans

- \$1,048,599,856
- 845 loans
- 42,671 units
- \$952,218,215 Tax Credits
- \$96,381,641 Non-Tax Credits
- Program is operated with ZERO subsidy
- Delinquency rate is below 1%

- Closed loans in all States except Hawaii, New Hampshire, and Utah



Section 538 GRRHP Funding Update

FY 2016

- Appropriated: \$150,000,000
- Obligated: **\$186,935,103**

FY 2017

- Allotment: \$86,295,000
- Obligated: \$44,418,963

As of February 28, 2017



The Section 538 NOFA:

- Informs the public of level of funding
- Is contingent on Congressional Appropriations
- Is published in the Federal Register
- Invites the public to apply for funds by submitting a “NOFA Response” (pre-application)
- Current NOFA expires December 31, 2017





Section 538 GRRHP Fees

- **Application Fee:** \$2,500 (N/A under current NOFA)
- **Initial Fee:** 1% of the guarantee amount is due at closing of guarantee
- **Annual renewal fee:** 50 BP will be charged each year or portion of the year guarantee is in effect
- **Transfer Fee (After loan is closed):** \$1500
- **Extension of a Conditional Commitment:** \$1500, first request; \$2500 subsequent requests
- **Reopen a Commitment:** \$3500



What Does the 538 GRRHP offer Developers?



- No restriction on return
- Construction advances guaranteed
- Guarantee on permanent loan
- No Davis Bacon requirement
- Uses include soft costs
- Workforce housing eligible and compatible
- Housing type flexibility
- Up to 90% LTV for for-profit entities
- Up to 97% LTV for non-profit entities
- Qualified Allocation Plan (QAP) preference



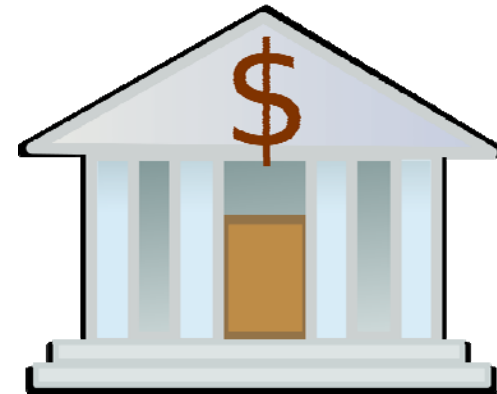
What Does the 538 GRRHP offer Lenders?



- 💰 Up to a 90% RD Guarantee
- 💰 Lender's underwriting standards
- 💰 100% of loan can be sold
- 💰 CRA credits
- 💰 Sell or hold servicing
- 💰 Lender retains servicing fee
- 💰 Not counted against lending limit
- 💰 Funds can be from tax exempt source
- 💰 Active secondary market – Ginnie Mae will Pool loans that have up to a 70% Loan to Cost
- 💰 Best negotiated interest rate

Who are the Section 538 Lenders?

- Banks
- Mortgage Companies
- Housing Finance Agencies
- Real Estate Investment Trusts (REIT's)
- Currently 85 lenders in the program





Section 538 Lender Eligibility Approval Process

Basic Eligibility Test

- HUD, Freddie Mac, Fannie Mae and Ginnie Mae approved multi-family housing lenders
- Originated at least one multifamily loan in the last 24 months and/or is currently servicing at least one multifamily loan



Section 538 Lender Eligibility Approval Process

Demonstrated Eligibility Test

Housing Finance Authorities, Federal Home Loan Bank Members, and any lender demonstrating:

- BBB rating or better from a lender rating agency
- Capacity to underwrite, originate, process, close, service, manage and dispose of multi-family loans;
- Track record of at least 3 multi-family loans, including at least 1 active loan in the past 2 years



Requesting Lender Eligibility

- Application for loan approval is submitted
 - ✓ With the first loan NOFA Response

OR

- ✓ Independent of a loan application

- Lender application review conducted at the National Office. Applicant will receive a written response within 30 days of submission.

Lenders who are currently approved in other RD loan programs are NOT automatically approved in the Section 538 GRRHP.



Documents Submitted for Eligibility

- Request for Lender Approval on letterhead
- Copy of letter from HUD, Fannie Mae, Freddie Mac, or Ginnie Mae
- Lender credit rating
- Resumes and qualifications of key personnel
- List of officers and principals
- Documentation on bonding and insurance
- Audited Financial Statements
- Loan Origination, Servicing and Portfolio Management Handbooks
- Portfolio Performance Data
- Standard documents for processing GRRHP loans
- Identification of standards and processes that deviate from the GRRHP Handbook
- Certification that principals and bank are not debarred or in default (i.e. Form 1047)



Section 538 Lender Eligibility vs Lender Approval

- An Eligible Lender has met the Agency's requirements but has not yet issued a Loan Note Guarantee
- An Approved Lender has closed a Section 538 loan, the Agency has issued a Loan Note Guarantee and the lender is actively servicing a 538 loans



Maintaining Lender Approval Status

A Lender remains in the program unless the lender:

- Is inactive for three consecutive years; or
- Fails to maintain requirements for eligibility; or
- Voluntarily withdraws from the GRRHP; or
- The Agency removes the lender from the program for just cause



Section 538 Lender's Reporting Requirements

- Monthly
- Quarterly
- Annual
- Lenders should be established on the Application Authorization Security Management System (AASM) Requires E-auth Level 2
- Electronic reports are submitted through the Lender Interactive Network Connection (LINC)



What's Coming Up in the 538 GRRHP?

Refinancing

Elimination of the NOFA



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