

## USDA Section 538

**Property Type:**

Moderately affordable, rural multifamily rental apartments.

**Purpose:**

New construction or acquisition with substantial renovation. Existing owners of Sec. 515 complexes may repair existing projects. For-profit or nonprofit borrowers may utilize this program.

**Debt Service Coverage:**

Minimum 1.20x for nonprofit or for-profit borrowers.

**Interest Rate:**

Fixed rate subject to market conditions at rate lock.

**Maximum Term:**

The lesser of 40 years or 75% of remaining useful life. Level principal and interest payments. Construction period is interest only.

**Eligibility:**

Rural areas with

- Population of 20,000 or less
- Population of 10,000 to 20,000 not contained within a MSA
- An area classified as rural with a population of 10,000 to 20,000 that has a serious lack of mortgage credit.

**Income/Rent Limits**

- Tenant income cannot exceed 115% of area median income (AMI)
- Average rents, including tenant-paid utilities, cannot exceed 30% of 100% of AMI. No single unit can exceed 30% of 115% of AMI.

**Prepayment:**

Commonly either:

- A 10-year lockout followed by a prepayment penalty at par, or
- A 5-year lockout followed by a prepayment period with a penalty through at least year 10.

**Escrows:**

Monthly escrows for all required insurance, real estate taxes, reserves for replacement, USDA guarantee fees and debt service reserves.

**Fees & Expenses:**

Borrower is responsible for \$20,000-\$25,000 in due diligence fees. At time of closing, these fees and all other closing costs may be included in the loan amount.

**Timing:**

This transaction typically can be completed within five months. Actual processing times vary depending on the project.

**Post-closing Reporting:**

Annual audited financial statements.