
**NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION
USDA RHS 538**

SOURCE OF FUNDS

- ✘ Centennial Mortgage, Inc.

ELIGIBILITY

- ✘ Borrowers may be for-profit, not-for-profit, individuals, partnerships, state or local public agencies, LLCs, trusts, or Indian tribes.
- ✘ For New Construction or Substantial Rehabilitation Multifamily Projects only.

REQUIREMENTS

- ✘ Project must be in a designated “Rural Area,” as defined by USDA—population must be less than 20,000.
- ✘ 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.
- ✘ Audited project financial statements must be filed annually with CMI.
- ✘ The property must comply with all RHS 538 GRRHP requirements until the loan maturity date, even if the Loan is paid in full prior to such maturity date.
- ✘ Property must contain at least five units.
- ✘ Property must be under one management.

ESCROWS

- ✘ Full escrows for property taxes and mortgage and property insurance are funded at closing and must be maintained throughout the life of the loan.
- ✘ A Replacement Reserve account must be established at closing and is made available for replacement of short-lived depreciable items. The account must be maintained with monthly contributions throughout the life of the loan. Interest earned on the account accrues to the benefit of the property.

- ✘ The borrower must contribute initial operating capital equal to at least 2 % of the loan amount.
- ✘ A Construction Contingency Escrow in the amount of 2% of the construction contract is required to cover additional costs during construction.
- ✘ An Operating Escrow Reserve (Conversion/Occupancy 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, will then allow conversion to the permanent loan, and must be funded by mortgagor with cash or a letter of credit at the closing of the construction financing.

FEATURES

- ✘ This is a non-recourse loan. Mortgagor assumes no personal liability.
- ✘ Security: Assets of the borrowing entity.
- ✘ Long-term—up to 40 years.
- ✘ The interest rate must be fixed.
- ✘ Loan-to-cost ratio up to 90% for a for-profit enterprise and up to 97% for a not-for-profit.
- ✘ The program can be used to guarantee permanent financing, or a combination construction and permanent loan. It cannot be used for a loan that covers only construction.
- ✘ Converts to permanent financing upon completion of construction, and stabilization (not required if the Conversion/Occupancy Reserve is established) at no extra cost. (Construction/Permanent).
- ✘ Fully assumable.
- ✘ 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.
- ✘ Interest Credit Subsidy on the first \$1,500,000 of the loan available to eligible projects.
- ✘ Debt service coverage ratio of 115%.
- ✘ Not subject to Davis-Bacon requirements.

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