Office of the Comptroller of the Currency

Community Developments
FACT SHEET

MARCH 2023 occ.gov/capublications

Multifamily Rural Housing Finance Program

Community Developments Fact Sheets are designed to share information about programs and initiatives of bankers and community development practitioners. These fact sheets differ from OCC bulletins and regulations in that they do not reflect agency policy and should not be considered regulatory or supervisory guidance. Some of the information used in the preparation of this fact sheet was obtained from publicly available sources. These sources are considered reliable and current, as of March 2023, but the use of this information does not constitute an endorsement of its accuracy by the OCC.

This *Community Developments Fact Sheet* summarizes certain aspects of the U.S. Department of Agriculture (USDA) Rural Development's Guaranteed Rural Rental Housing Program (GRRHP)[1] for national banks and federal savings associations (collectively, banks). This fact sheet explains how loans made under the program may be used to support a bank's affordable housing and community development strategies. Eligible lenders may apply for a loan guarantee on loans made to qualified borrowers that are building or preserving affordable rural rental housing.

Overview

The GRRHP provides up to 90 percent guarantees for loans financing the purchase, construction, or improvement of affordable multifamily housing in rural areas.[2] Guaranteed loan funds may be used for certain expenses, such as purchasing the land, providing necessary infrastructure, and construction (hard costs)—and to cover costs not directly related to the construction, such as architecture and engineering fees, permits, and financing costs (soft costs).

Guarantees are available for permanent loans or combined construction-to-permanent loans but not construction-only loans. The program also permits a single, continuous guarantee for the construction and permanent finance phases of the project (for loans that meet certain criteria).

Program Requirements

Lender Eligibility

Eligible lenders must submit a lender approval application no later than when the lender submits its first application for a loan guarantee or its first application to purchase a guaranteed loan. To participate in the program, eligible lenders must be approved by Rural Development's Rural Housing

[1] The GRRHP is authorized by section 538 of the Housing Act of 1949, as amended by Pub. L. 106-569 (December 27, 2000), 42 USC 1490p-2, and implemented by 7 CFR 3565.

[2] Refer to 7 CFR 3565.52(c) and 3565.205.

Service (RHS). Lenders may demonstrate preliminary eligibility if they are approved and currently active in a multifamily housing program administrated by Fannie Mae, Freddie Mac, Ginnie Mae, or the U.S. Department of Housing and Urban Development (HUD). If a lender is not approved by one of these entities, the lender must demonstrate experience originating and servicing affordable multifamily housing loans.[3] To be an approved lender, eligible lenders must meet certain other requirements and maintain compliance with them on a continuing basis, such as the requirement to provide RHS with an annual audited financial statement conducted following generally accepted government auditing standards.[4]

Borrower Eligibility

Eligible borrowers are individuals, corporations, state or local public agencies or an instrumentality thereof, partnerships, limited liability companies, trusts, Indian tribes, or any organization deemed eligible by the RHS.[5]

Property, Project, and Tenant Eligibility

The GRRHP requires that rental properties receiving guaranteed loans be in an eligible rural area.[6] Eligible rural areas generally include areas and towns with 35,000 or fewer people and federally recognized tribal lands. A specific rural address can be checked on USDA Rural Development's website[7] to determine the property eligibility.

The GRRHP allows for various-sized affordable housing projects to be built. The minimum number of units per project is five. Purchase of an existing property must be in connection with moderate or substantial rehabilitation costs per unit of at least $6,500. Each project must be owned within a single asset entity, unless otherwise approved by RHS. The dwelling(s) may be detached, semidetached, row houses, or multifamily structures. Manufactured housing is permitted if attached to the land.[8]

Individual unit rents, including any tenant-paid utilities, are required to be capped at 30 percent of 115 percent of the area median income, adjusted for family size.[9] The annual average rent for a project cannot exceed 30 percent of 100 percent of the area median income, adjusted for family size.

At initial occupancy, a tenant's income cannot exceed 115 percent of the area median income. After initial occupancy, a tenant's income may exceed these limits, and the GRRHP does not require re-certification.[10]

Loan Terms and Fees

Loan Amount and Lien Position

The lender is responsible for determining the appropriate maximum loan amount and is

[3] Refer to 7 CFR.3565.102.

[4] Refer to 7 CFR 3565.103.

[5] Refer to 7 CFR 3565.151.

[6] 7 CFR 3565.3 defines "eligible rural area" as an area that meets the requirements of 7 CFR 3550.

[7] Visit USDA Rural Development's property eligibility site to determine whether a particular multifamily housing property is consistent with the GRRHP's location requirements.

[8] Refer to 7 CFR 3565.251–252.

[9] Refer to 7 CFR 3565.203.

[10] Refer to 7 CFR 3565.202.

prohibited from establishing a minimum loan amount. For the part of the property that is attributable to dwelling use, the principal obligation of each guaranteed loan must not exceed the applicable maximum per-unit limitations under section 207(c)(3) of the National Housing Act.[11]

The lender that provides the financing under the GRRHP is in a first-lien position.[12] If required by the lender, loans guaranteed under the GRRHP may be made on a recourse or nonrecourse basis or with any personal or special borrower guarantees on collateralization.[13] The originating lender is initially responsible for servicing the loan, and servicing transfers are only permitted in limited circumstances.

Borrower Contribution

Generally, an eligible borrower may borrow up to the lesser of 90 percent of (1) the development costs of housing and related facilities or (2) the lender's determination of value, not to exceed the appraised value of the housing and facilities. Nonprofit borrowers or an agency or body of any state, local, or tribal government may borrow up to the lesser of 97 percent of (1) the development costs of the housing or related facilities or (2) the lender's determination of value, not to exceed the appraised value of the housing and facilities.[14] The borrower contributes the remaining capital.

Term, Amortization, and Rate

Generally, a lender may set the loan term and amortization between 25 and 40 years. Interest rates must be fixed and are negotiated between the lender and the borrower.[15] Borrowers can lock in the interest rate for permanent financing at the time of closing of the construction loan.

Fees

The GRRHP allows a lender to charge reasonable and necessary fees in connection with a borrower's application for a guaranteed loan. RHS fees consist of an initial guarantee fee and an annual guarantee fee.[16] The fees are published in the *Federal Register*. Effective April 4, 2022, the fee structure was 0.65 percent for the initial guarantee fee and 0.35 percent for the annual guarantee fee. The fee structure is lowered to a 0.60 percent initial guarantee fee and a 0.25 percent annual guarantee fee for workforce housing, preservation of existing RHS-financed housing, and properties meeting green energy-efficiency standards.[17]

Rate Modification and Refinance of Existing GRRHP Loans

Lenders may refinance existing GRRHP loans when the RHS determines that the refinancing is in the government's interest or furthers the program's objectives. USDA Rural Development may approve interest rate reductions agreed to by the borrower

[11] Refer to 12 USC 1713(c)(3), 7 CFR 3565.204(a), and *Guaranteed Rural Rental Housing Program Origination and Servicing Handbook*, HB-1-3565 (pp. 3-27 and 3-28).

[12] Refer to 7 CFR 3565.207.

[13] Refer to 7 CFR 3565.215.

[14] Refer to 7 CFR 3565.204.

[15] Refer to 7 CFR 3565.209.

[16] Refer to 7 CFR 3565.53.

[17] Refer to 87 Fed. Reg.12077 (March 3, 2022) for the fee structure effective April 4, 2022.

and lender if it improves the project's overall financial viability and its operations.

Compatibility and Benefits

According to USDA Rural Development, GRRHP loans are compatible with other affordable housing finance programs, which may have limited restrictions, and offer benefits to developers and lenders.[18] Among the benefits, the loan proceeds

- may be used for transaction costs including legal fees, developer fees, architect fees, and application fees.
- may be provided for projects that also qualify for tax incentives under the Internal Revenue Service's opportunity zones.[19]
- may be used for workforce housing (with tenant incomes between 80 and 115 percent of the area median income).
- only require that the borrower obtain the income certification of tenants at initial occupancy (no annual recertification).
- may be used to rehabilitate properties that were financed using USDA Rural Development's 515 Rural Rental Housing Program.[20]
- may be sold on the secondary market and are eligible for Ginnie Mae's Real Estate Mortgage Investment Conduits.

Leveraging

Most GRRHP loans are used in conjunction with other programs. For example, GRRHP loans can also be used as gap financing, with low-income housing tax credits and other federal assistance, and may include secondary loan financing such as HUD's HOME[21] program and Federal Home Loan Bank programs.

How Banks Can Participate

RHS no longer publishes the annual Notice of Funding Availability. Banks can review the *GRRHP Origination and Servicing Handbook* (HB-1-3565) and other information on the RHS website.[22]

For each affordable housing project, a lender wishing to participate in the GRRHP should submit a guarantee request to USDA Rural Development that summarizes the proposed project on behalf of the project developer.

Community Reinvestment Act

Investment in affordable multifamily housing may be eligible for Community Reinvestment Act consideration. For more information, visit the OCC's Community Reinvestment Act page or contact the OCC's supervisory office.

For More Information

- GRRHP regulations are in 7 CFR 3565 and the *Guaranteed Rural Rental Housing Program Origination and Servicing Handbook*. This handbook provides lenders and RHS staff with guidance on the origination and servicing of GRRHP loans and the approval of qualified lenders.
- The OCC's Multifamily Rental Resource Directory provides links to resources for

[18] Refer to the end of section 5, chapter 3, of the *Guaranteed Rural Rental Housing Program Origination and Servicing Handbook* (p. 3-30).

[19] Refer to 26 USC 1400Z-1(a).

[20] Refer to section 515 of the Housing Act of 1949, as amended, 42 USC 1485.

[21] Refer to 42 USC 12701.

[22] Refer to RHS's Multifamily Housing Loan Guarantees web page.

banks and others interested in multifamily finance and investment programs.

- The OCC's Community Reinvestment Act page provides information for banks and others interested in CRA.