

CHAPTER 2: MULTI-FAMILY HOUSING PROGRAMS AND THE ORIGINATION PROCESS

2.1 INTRODUCTION

This chapter introduces the key aspects of the Section 515 Rural Rental Housing and Section 514/516 Farm Labor Housing programs. Under these programs, the Agency provides direct loans and grants to support the development of affordable rental housing that serves rural areas. The Section 538 Multi-Family Housing Guarantee program—the Agency’s third Multi-Family Housing program that guarantees loans made by private lenders—is covered in a separate regulation [7 *CFR Part 3565*] and handbook (HB-1-3565).

This chapter presents an overview of the framework that the Agency uses in soliciting applications for funds and selecting projects to receive loans or grants. The framework provides Loan Processing Staff with a consistent basis for attracting and funding project applications that further the objectives of the program and meet applicable Federal requirements.

Section 1 introduces the types of loans and other forms of assistance available through the Section 515 program and the Agency’s objectives in providing this assistance. Section 2 describes the loans, grants, and other assistance available to increase the supply of affordable housing specifically targeted toward farm labor. The chapter concludes with Section 3, which outlines the major actions and decisions in the loan origination process, as well as the key parties involved.

SECTION 1: SECTION 515 PROGRAM

2.2 OVERVIEW

The Section 515 program offers direct loans to eligible borrowers to provide economically designed and constructed housing and related facilities for very low-, low-, and moderate-income households; elderly households; and persons with disabilities living in rural areas. This section of the chapter describes:

- The types of projects allowed;
- The types of loans available;
- Rental assistance available from the Agency; and
- The Agency’s preference for leveraged projects.

2.3 TYPES OF PROJECTS

There are five basic types of rental projects that can be developed using Section 515 loans:

- Family projects;
- Elderly projects;
- Congregate projects;
- Group homes; and
- Rural Cooperative housing.

In addition, Section 515 loans can be used to finance rural cooperative housing projects. The Agency also allows mixed projects that contain both family and elderly units.

The housing must be economical and must not include elaborate features, but must be adequate to meet tenants' needs. The project should be of average quality and cost. With the exception of Off-Farm Labor Housing, all projects must be developed in locations in designated places as described in Chapter 3.

A. Family Projects

A family housing project is a rental property developed for occupancy by eligible very low-, low-, and moderate-income households.

B. Elderly Projects

An elderly project is a rental property that is developed for occupancy solely by eligible elderly households, which include a tenant, or cotenant who is disabled, or age 62 and older. Persons with disabilities and their families are permitted to live in elderly housing.

C. Congregate Projects

Congregate projects are rental properties developed for occupancy by eligible very low-, low-, and moderate-income elderly households, individuals with disabilities, and families who require some supervision and central services but are otherwise able to care for themselves. Congregate projects consist of private apartments and central dining facilities in which a number of allowable pre-established services are provided to tenants. These projects are not designed to be nursing homes and, therefore, are not allowed to pay for the cost of medical- or healthcare-related services.

D. Group Homes

A group home is housing that is occupied by eligible very low-, low-, and moderate-income elderly persons or individuals with disabilities who share living space within a rental unit and in which a resident assistant may be required.

E. Rural Cooperative Housing

Section 515 loans may be used to finance rural cooperative housing projects operated by nonprofit consumer cooperatives for the benefit of eligible very low-, low-, and moderate-income members who will own and manage the development.

F. Mixed Projects

Mixed projects are properties developed with a portion of the units designated as family units and the remainder of the units established as elderly units. At the time the project is developed, the borrower must designate the units that will be operated as family units and those that will be operated as elderly units.

2.4 TYPES OF LOANS

The rules governing the origination of Section 515 loans differ slightly, depending upon the type of loan being made. The types of loans available under Section 515 include:

- Initial loans;
- Subsequent loans; and
- Assumed loans.

Loans are only made to projects that further the program's objectives and comply with applicable Agency requirements. Eligible uses of loan funds and the conditions that borrowers must meet to be eligible are discussed in Chapter 4.

A. Initial Loans

Initial loans are normally made to build new projects. However, the Agency does make initial loans for the purchase and rehabilitation of existing properties when it is in the Agency's best interest.

The interest rate for these loans is set at the note rate established in RD Instruction 440.1. The Agency then provides interest credit assistance, which reduces the effective interest rate to 1 percent.¹ The amount of interest credit received depends on the income

¹ Some existing projects do not receive interest credit, while others receive interest credit that reduces the interest rate to 3 percent. However, all initial loans made by the Agency following the publication of this handbook will receive interest credit as described here.

of the eligible tenants living in the complex. The administration of interest credit is covered in HB-2-3560 and HB-3-3560.

The Agency establishes the term of these loans to correspond to the expected useful life of the property. The maximum term is 30 years with an amortization period not to exceed 50 years. Generally, initial loans are made for a term of 30 years, with the exception properties where the expected useful life is shorter (e.g., manufactured housing).

B. Subsequent Loans

Subsequent loans can be issued during the term of an Agency loan to help an existing borrower pay for repairs or improvements to the property, or in conjunction with the transfer of a property where the purchaser is assuming the initial Agency loan. The key differences between processing requirements for subsequent and initial Section 515 loans are discussed in Chapter 10. Guidance regarding the requirements and procedures for processing project transfers is covered in HB-3-3560. Subsequent loans may also be used to finance equity to avert prepayment of the project.

Subsequent loans to add units to an existing project will be processed in the same way initial loans are and will be subject to the Notice of Funding Availability (NOFA) requirements. However, subsequent loans to add units for the disabled are not subject to the NOFA requirements.

C. Assumed Loans

Section 515 loans may be assumed in conjunction with the transfer of ownership of the property. The terms and conditions of the assumption depend upon the needs of the project at the time of the transfer.

1. New Rates and Terms Assumption

Most assumptions of Section 515 loans are new rates and terms assumption—that is, the purchaser assumes responsibility for all or a portion of the remaining debt. To conserve the Agency’s budgetary resources, the transaction does not involve paying off the old loan and issuing a new initial loan. Instead, the purchaser assumes the outstanding debt, which is reamortized at new rates and terms. Such assumptions are used when the purchaser will experience financial difficulties under the terms of the initial loan or when a change in rates and terms is necessary to facilitate the transfer.

2. Same Rates and Terms Assumption

Transfers may also take place in conjunction with a same rates and terms assumption. Under this type of assumption, the existing note terms, including the interest rate and the remaining repayment period, do not change.

2.5 PREFERENCE FOR PROJECTS THAT LEVERAGE OTHER FUNDS

To maximize the number of units produced with Section 515 loan funds, the Agency gives preference to project applications for new loans that leverage other funds, thereby reducing the amount of Section 515 loan funds needed to develop the project. The greater the leveraging proposed in a project application, the greater the preference for funding. Examples of funds that count as leveraged funds include borrower resources beyond the minimum required amount, equity generated by the sale of low-income housing tax credits (LIHTCs), a second loan from another lender, or a grant from a State or local public agency or other source.

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SECTION 2: SECTION 514/516 PROGRAM

2.6 TYPES OF PROJECTS

The Section 514/516 Farm Labor Housing program provides funds to support the development of housing for farm labor. Section 514/516 assistance differs from the Section 515 loans in the following ways:

- The objective of the program is to provide housing for farmworkers;
- There are no rural restrictions; and
- Agency grants are available to support the development of these projects.

Section 514/516 assistance may be used for Off-Farm Labor Housing projects. On-Farm Labor Housing projects may receive only 514 assistance, they are not eligible for grants (516). Section 514 assistance may be used in conjunction with Federal LIHTCs.

A. Off-Farm Labor Housing

The Agency is authorized to make loans and grants for financing off-farm labor housing to broad-based nonprofit organizations; nonprofit organizations of farmworkers; Federally recognized Indian tribes, agencies, or political subdivisions of State or local Governments; and public agencies (such as local housing authorities). Section 514 loans can be made to limited partnerships in which the general partner is a nonprofit entity.

B. On-Farm Labor Housing

On-Farm Labor Housing is designed to provide adequate housing for farmworkers involved in a specific farming operation. Individual farmers, family farm corporations or partnerships, or associations of farmers may develop these projects but must operate them on a nonprofit basis. To qualify for occupancy, an individual or a household must simply be employed as part of the farming operation. There is no income restriction governing occupancy; however, immediate family members of individuals with an ownership interest in the farm are prohibited from living in this housing at the property.

2.7 LOANS AND GRANTS

A. Farm Labor Housing Loans

Section 514 loans for Farm Labor Housing projects are very similar to Section 515 loans, but differ in two important ways:

- These loans carry a 1 percent effective interest rate (i.e., there is no interest credit); and
- The maximum term for these loans is 33 years.

These loans can be used to finance either Off-Farm or On-Farm Labor Housing projects.

At one time, loans for both types of projects were processed on a first-come, first-served basis. Today, lending decisions regarding loans for Off-Farm Labor Housing projects are handled through a competitive NOFA process, while loans for On-Farm Labor Housing projects are still processed in the order they are received. Chapter 12 provides more detailed information about the origination process for these loans.

B. Farm Labor Housing Grants

Section 516 grants may only be used to support the development of Off-Farm Labor Housing projects. These grants may be used for the same purposes as Section 514 loans when there is reasonable doubt that the housing would not be affordable to prospective farmworkers without the grant. Chapter 12 provides more information about the origination process for these grants.

2.8 PREFERENCE FOR PROJECTS THAT LEVERAGE OTHER FUNDS

Like the Section 515 program, the Agency gives preference to applications for Off-Farm Labor Housing projects that leverage other sources of funds. There is no leveraging preference for On-Farm Labor Housing applications.

SECTION 3: SECTION 521 PROGRAM

2.9 OVERVIEW

The Section 521 Rental Assistance program provides assistance to individual residents of Agency financed multi-family projects. Rent subsidies under the Rental Assistance program ensure that elderly, disabled, and low-income residents of multi-family housing projects financed by RHS are able to afford rent payments. With the help of the Rental Assistance Program, a qualified applicant/tenant pays no more than 30% of his or her income for housing.

Residents of multi-family housing projects built both under the Rural Rental Housing Program (Section 515) and the Farm Labor Housing Program (Section 514) are eligible to apply for the Rental Assistance Program. Not all residents of RHS-financed housing developments receive rental assistance.

The Agency and the project owner execute a contract in which the Agency commits payments on behalf of tenants in a designated number of the units. Both the Agency and the project owner agree to be bound by all applicable Agency regulations. The contract becomes effective on the first day of the month in which it is executed (additional units may be covered if funds are available and an additional contract is executed). The agreement may be renewed as many times as funds are made available. State Directors may transfer unused and unneeded contracts or portions of contracts to other projects.

2.10 SECTION 515 & 514/516 PROGRAMS.

A. Section 515

Owners of Section 515 projects located in areas where prospective applicants are likely to be overburdened by rent or where existing tenants are already over-burdened can apply for rental assistance administered by the Agency.

B. Section 514/516

Off-Farm Labor Housing projects may also apply for rental assistance administered by the Agency. The requirements for obtaining rental assistance are the same as for Section 515 projects. Operating assistance may be used in lieu of tenant-specific rental assistance in off-farm labor housing projects financed under Section 514 or Section 516 that serve migrant farmworkers. On-Farm Labor Housing projects are not eligible for rental assistance.

SECTION 4: OVERVIEW OF LOAN AND GRANT ORIGINATION

2.11 THE LOAN ORIGINATION PROCESS AND THIS HANDBOOK

Because most of the initial Multi-Family Housing loans made by the Agency finance Section 515 rental projects, this handbook first presents the loan origination requirements and

procedures for these loans. The loan origination process for these projects also serves as a basis for the Agency’s lending decisions for other types of loans. Next, the handbook covers the process for making subsequent loans to these projects. The handbook then discusses how the loan origination process differs for loans to special types of Section 515 projects—congregate housing, group homes, projects using manufactured housing, and cooperative projects. Finally, the handbook presents the origination process for Section 514/516 loans and grants for farm labor housing projects.

2.12 KEY STEPS IN THE ORIGINATION PROCESS

A. Section 515 Loan Origination Process

1. Family and Elderly Projects

The Agency uses a competitive process to select project proposals that will be invited to apply for loans. The Agency’s competitive process involves a NOFA that requests project proposals that meet the established eligibility requirements and selection criteria. Selected applications that are determined to be both eligible and feasible are approved for a loan and the applicants proceed with construction and loan closing. Project lease-up generally begins once construction and closing are completed.

Processing Steps

This section outlines the steps involved in processing Section 515 and Section 514/516 loans and grants. It is intended to provide a conceptual overview of the process. The detail needed to fully understand each step follows in later chapters.

The NOFA is published annually once the Agency has received the appropriation for the program and determined the available funding. Exhibit 2-1 outlines the key steps in the Section 515 loan origination process. Chapters 3 through 11 provide specific guidance regarding the Agency’s requirements and procedures for originating Section 515 loans for these projects.

Exhibit 2-1

Key Steps in the Origination Process for Section 515 Loans

Stage 1 — NOFA and Initial Application Process

Loan Applications

- Loan Processing Staff develop list of designated places.
- Agency publishes NOFA.
- Applicants submit initial applications within required timeframes.
- Loan Processing Staff perform preliminary eligibility evaluation of initial applications and rank them using scoring criteria from the NOFA.
- Loan Processing Staff forward a list of eligible and feasible proposals to the National Office.
- National Office notifies State Loan Processing Staff of applications that scored high enough for funding in the national ranking to warrant further processing.
- Loan Processing Staff return to applicants low-scoring project proposals that will not be considered for a loan.
- Loan Processing Staff conduct underwriting analysis of initial applications.
- Loan Processing Staff reject initial applications that do not meet their underwriting standards.
- Loan Processing Staff invite the applicants who had submitted backup project proposals to submit applications (if needed).
- Loan Processing Staff invite applicants with top-scoring initial applications that meet Agency underwriting standards to submit final applications.

Final Applications

- Applicants submit final applications within 30 days.
- Loan Processing Staff review final applications to confirm eligibility and project feasibility and final documents still outstanding.
- State Director* or delegated Loan Approval Official review and approve applications determined to be eligible and feasible. Applications that are not eligible or feasible are rejected.

Loan Closing and Construction

Project Lease-Up

* Review and approval may also be performed by a Loan Approval Official designated by the State Director.

2. Congregate Housing and Group Homes

Loan Processing Staff review and rank initial applications for congregate housing together with all other Section 515 proposals submitted in response to the NOFA. After its Loan Processing Staff have reviewed the initial application for eligibility and

feasibility, the Field Office will forward the application (if it ranks high enough) with its recommendation to the National Office for review. If the National Office concurs with the recommendation of the Field Office, the applicant is invited to submit a final application.

Applications for loans to finance group home projects are handled in the NOFA process. Field Offices may process applications after contacting the National Office to confirm that such funding is available. Initial applications approved by the Field Office are forwarded to the National Office for review and concurrence. Final applications are processed much like those for other projects.

Chapter 11 provides specific guidance regarding the requirements and procedures for making loans to these projects.

3. Cooperative Projects

Applications for Section 515 loans to finance cooperatives are processed on a first-come, first-served basis from the National Office reserve NOFA. Applications requesting loans for cooperatives are forwarded to the National Office for processing. Guidance regarding the loan origination process is covered in Chapter 11.

B. Section 514/516 Loan and Grant Origination Process

1. Off-Farm Labor Housing Projects

The loan/grant origination process for Off-Farm Labor Housing parallels the procedures for Section 515 loans with a few key differences. The Farm Labor Housing NOFA will be published by the Agency at approximately the same time as the Section 515 NOFA. However, interested parties will have 60 days to respond, which is 15 days longer than for Section 515 loans.

Once the Loan Processing Staff have ranked the proposals in their State, the top-scoring proposals will be submitted to the National Office for national ranking. National Office Staff will notify Field Offices of the proposals that scored high enough nationally to be selected for further processing. At this point, Field Office Staff will invite NOFA respondents with top-scoring initial applications to submit final applications. The procedures for processing Off-Farm Labor Housing loan applications follow the general Section 515 procedures.

2. On-Farm Labor Housing Projects

Interested parties may submit applications for Section 514 loans for On-Farm Labor Housing projects at any time sufficient funds are available for the proposed projects. The procedures for reviewing and approving initial and final applications parallel the procedures in Chapters 4 and 5.

2.13 LOAN ORIGINATION FOR SECTION 515 PROJECTS

Chapters 3 through 11 specifically address the loan origination requirements and procedures for Section 515 projects.

A. Property Requirements (Chapter 3)

To qualify for a Section 515 loan from the Agency, proposed projects must comply with the property requirements established in 7 CFR 3560.57 through 7 CFR 3560.59. Specifically, these requirements address:

- Location;
- Site conditions;
- Project design; and
- Environmental reviews.

These requirements ensure that proposed projects fulfill the program's objectives; provide adequate, modest-quality housing for tenants; and protect the security of the Agency's loan.

This information is presented early in the handbook because prospective applicants for funding need to understand these requirements before they can prepare an application. Loan Processing Staff should refer to this chapter and the corresponding sections of the regulation when responding to inquiries.

B. NOFA and Initial Application Process – Stage 1 (Chapter 4)

Each year, the process of making Section 515 loans begins with the Agency's publication of the NOFA requesting project proposals. Potential loan applicants submit project proposals to Field Offices in response to the criteria and priorities established in the NOFA. Loan Processing Staff review the proposals to make an initial eligibility determination and rank the proposals according to the scoring criteria in the NOFA. The National Office will rank all requests nationwide and will notify all States of applications that scored high enough nationally for funding and further processing. Proposals determined to be ineligible are rejected, and low-scoring proposals with no chance of funding are returned.

After reviewing project proposals submitted in response to the NOFA, Loan Processing Staff will then invite the applicants who had submitted top-scoring proposals to submit applications. Applications provide more detailed information about the applicant and the proposed project. Once applications are received, State Loan Processing Staff will review them using the Agency's underwriting standards to evaluate the eligibility and feasibility of the proposed project. The underwriting analysis of initial applications will examine:

- Loan applicant eligibility;
- Project eligibility;
- Project financial feasibility;
- Environmental impact;
- Reasonableness of project costs; and
- Security available for the Agency loan.

Loan applications that meet the Agency's underwriting standards will continue for further processing. Applications that fail to meet the standards will be rejected. Loan Processing Staff will extend invitations for applications from those who had submitted backup proposals in the event of any applications being rejected.

C. Processing Final Applications – Stage 2 (Chapter 5)

Applications that pass the initial application stage will be invited to submit final applications. This chapter explains how the Agency makes a final determination about the feasibility of the project, establishes that the applicant has adequate systems to successfully develop and operate the project under the program, and sets the terms of Agency financing. The applicant also signs the loan agreement or resolution, as applicable, which becomes their legal obligation to comply with all Agency program requirements.

D. Participation with Other Funding Sources (Chapter 6)

Because the Agency is encouraging leveraging as a way to maximize the number of units that can be produced with available loan funds, a significant number of loans involve the participation of other sources of funds and financing. The participation of parties beyond the Agency and the borrower can enhance the production of housing, but it also increases the risk to the Agency. The Agency has established additional requirements and procedures for participation loans to ensure that these projects are developed in a manner consistent with the program's objectives, that the Agency receives adequate security for its loans, and that the amount of Government assistance to these projects is no more than necessary for the project to be feasible.

E. Security Requirements (Chapter 7)

As a lender, the Agency needs to ensure that it obtains adequate security to protect its investment in the event the project fails. The requirements and procedures regarding security for the Agency's loan are designed to provide reasonable assurance that the Agency will be able to recoup the loan principle if the project fails.

F. Loan Closing and Project Lease-Up (Chapter 8)

Once the Agency has approved a loan application, Loan Processing Staff and the applicant will prepare for loan closing and construction. The process depends on the type of construction financing obtained by the applicant. At loan closing, the transfer of property takes place, and the documents establishing the loan applicant's responsibility to repay the Agency financing and comply with the requirements of the program are executed. Once loan closing and construction are complete, the borrower begins to lease units in the property to eligible tenants in accordance with applicable program requirements.

G. Project Construction (Chapter 9)

While improvements are being made at the property, the Agency will monitor the progress of construction to confirm that the work is being performed as agreed and that the quality of work is satisfactory. This oversight ensures that the project will offer adequate housing for tenants and provide the necessary security for the Agency's loan.

H. Subsequent Loans and Loans for Final Payments (Chapter 10)

After a project is complete, there may be times when an additional loan from the Agency is required to address legitimate project needs. Under certain circumstances, the Agency will provide subsequent loans to projects to protect the interests of the Government and tenants.

I. Special Property Types (Chapter 11)

Due to differences in the nature of the projects that can be financed with Section 515 loans, the requirements and procedures for making loans to congregate housing, group homes, and rural cooperative housing differ in several important respects from those for Section 515 rural cooperative housing standard family and elderly rental projects. These differences in requirements and procedures are designed to ensure that these projects fulfill the objectives for which they were built and protect the Agency's interests.

2.14 FARM LABOR HOUSING LOANS AND GRANTS (CHAPTER 12)

The requirements and procedures for originating Farm Labor Housing loans and grants closely parallel those for Section 515 loans. However, there are important differences, given the purpose and nature of farm labor housing.

A. Off-Farm Labor Housing

Because the funding for farm labor housing is separate and distinct from Section 515 funding, the Agency publishes a separate NOFA requesting proposals for Off-Farm Labor Housing projects. To facilitate the fair and equitable allocation of available funds for these projects, Loan Processing Staff submit the top-ranked project proposals to the National Office to be ranked nationally. Based on this national ranking, the National Office will identify those projects that will be invited to submit applications. In making

this determination, the National Office will consider geographic location, as well as point score. Field Offices will then be informed of the applicants who had submitted project proposals that should be invited to submit applications for loans and grants (if needed). After this point, the process proceeds on a parallel track to the Section 515 application process using the procedures presented in Chapters 4 and 5.

B. On-Farm Labor Housing

Given the Agency's program priorities, the amount of funding allocated for On-Farm Labor Housing is usually limited. For this reason, On-Farm Labor Housing loan applications are processed on a first-come, first-served basis. When Loan Processing Staff receive an inquiry regarding On-Farm Labor Housing financing, the State Office should contact the National Office to determine whether loan funds are potentially available. If loan funds are available, the Loan Origination Office can accept an application from the prospective borrower. Loan Processing Staff will process initial applications and final applications using the same basic procedures presented in Chapters 4 and 5.