

# Elevate real estate financing



**\$5.3B**

Affordable housing  
loan volume over  
last 5 years

**430+**

Affordable housing  
deals closed over  
last 5 years

**\$6.4B**

Affordable servicing  
portfolio

**\$100M+**

Distributed to  
advance and create  
affordable housing

## Boundless lending sources. Curated for clients.

As one of the nation's largest privately-owned real estate financing companies, BWE's trusted advisors combine innovation, extensive experience, and strong lender relationships to optimize a deal's capital stack for affordable housing investors, developers, and property owners.

### Deal certainty

Delivering seamless executions  
with optimal financing and  
streamlined underwriting

### Comprehensive capital solutions

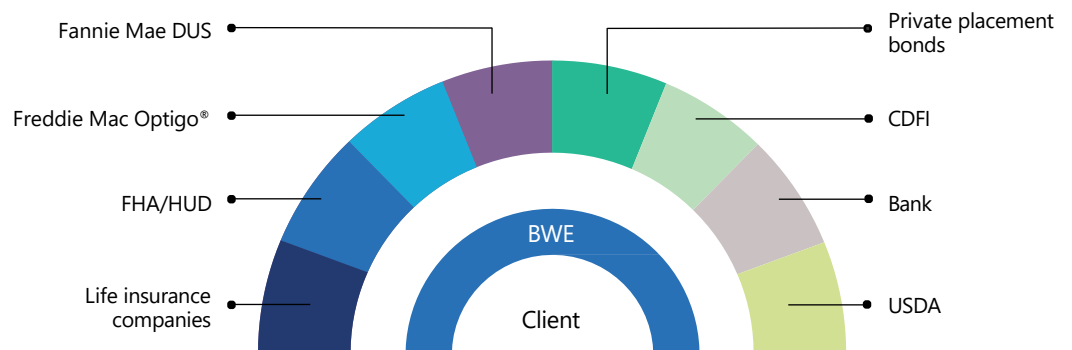
Longstanding, direct lender  
relationships including Fannie  
Mae, Freddie Mac, FHA, USDA,  
private placement bond, and  
more

### Experienced trusted advisors

Robust team of experts  
dedicated specifically to  
affordable housing finance

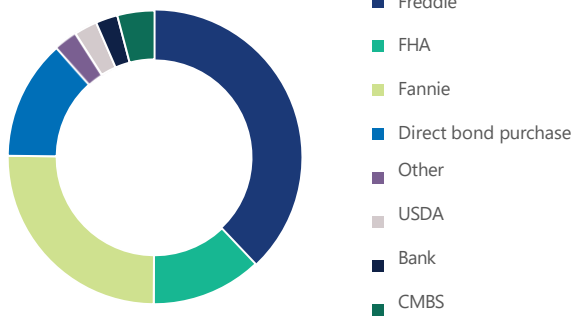
- Decades of relationship building with hundreds of lending sources
- Licensed and approved direct lender with Fannie Mae, Freddie Mac, and FHA
- Single point of servicing contact with industry expert for life of loan

## Directly connecting clients to trusted partnerships

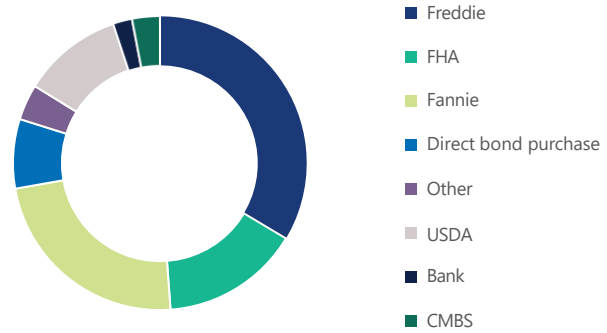


# Committed to clients with all affordable housing types

## Loan volume last 5 years



## Loans closed last 5 years



## Affordable Housing property types

- 4% LIHTC
- 9% LIHTC
- New construction middle income housing
- Rural affordable and middle income
- Section 8
- Public Housing – RAD
- Project-based rental assistance properties
- Naturally occurring affordable
- Preservation

## Affordable Housing production team

### Leadership

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Bellwether Enterprise (BWE) specializes in arranging RHS 538 loans for affordable housing developments in qualified rural sub-markets. We have a long-standing relationship with the RHS and work closely with each Borrower throughout their application and commitment process.

The RHS 538 Loan Program is a government guaranteed loan available to developers of affordable multifamily housing in rural areas. Under the program, BWE underwrites the loan; the RHS then provides a guarantee of up to 90% that covers the loan.

### REPRESENTATIVE TRANSACTIONS



#### Cross Creek Meadows

\$750,335  
Chillicothe, OH



#### Affordable Multifamily

\$2,470,000  
San Antonio, TX



#### Mullica West Apartments

\$4,999,999  
Mullica Hills, NJ



#### Affordable Multifamily

\$665,000  
Baton Rouge, LA



#### Cypress Creek

\$19,605,000  
Royse, TX



# USDA RHS 538 GUARANTEED RURAL RENTAL HOUSING

New construction or substantial rehabilitation of  
Multifamily or seniors housing

Provides mortgage insurance to facilitate the new construction or substantial rehabilitation of multifamily or independent senior rental housing units, or the acquisition, revitalization, repair and transfer costs of existing direct Section 515 housing. This program provides for both construction and permanent financing or permanent financing only. The permanent financing must take out the construction loan.

The program allows for existing RHS 538 GRRHP loans to be modified and lower the interest rate only when market conditions are favorable and the existing prepayment penalties have expired or are reasonable to be paid.

As of May 3rd, 2017 the program now allows for existing RHS 538 GRRHP loans to be refinanced utilizing the RHS 538 GRRHP program.

## REQUIREMENTS

- Project must be in a designated "Rural Area," as defined by USDA-population must be less than 25,000. (See USDA RHS eligibility Map here.)
- Tenant income restrictions of 115 percent of area median income upon initial occupancy. Rents plus tenant paid utilities may not exceed 30 percent of 100 percent of area median income.
- 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. A waiver may be obtained if affordable housing needs are met in the market.
- Substantial Rehab is a minimum of \$6,500 per unit in repairs.
- Borrowers may be for-profit, nonprofit, individuals, partnerships, state or local public agencies, llcs, trusts or indian tribes. Can be a single asset and single Purpose entity, or a multiple purpose entity (i.E. Portfolio purchase and substantial rehabilitation of multifamily housing) as acceptable to RHS.
- Occupancy requirement: prior to closing of the rhs 538 grrhp permanent loan the project must reach sustaining occupancy of 90% occupancy for 90-consecutive days, unless the 2% conversion/lease up reserve is posted on or prior to closing (see reserves below for more details), and any other requirements conditioned by rural development in its conditional commitment.

## TERMS

### AMORTIZATION & TERM

The maximum mortgage term is the lesser of 40 years (a minimum of 25 years), or the remaining economic life of the project, fully amortizing, 30/360 interest calculation.

Amortization begins at the conversion to the permanent loan/ final endorsement. The term limit applies to the construction/ renovation and permanent phase.

The maximum amortization is 40 years and the program does allow for a balloon payment if the term and amortization is different.

### LOAN SIZE

There is no minimum or maximum loan size.

### INTEREST RATE

The construction and permanent loan interest rate is fixed at initial closing for the life of the loan. the permanent loan only will be fixed for the life of the loan. During construction, the loan is interest only.

*FOR PERMANENT ONLY LOAN* - The ability to provide a forward permanent only loan with an interest rate lock of up to 24-months once the RHS conditional commitment is received. Please discuss with bellwether enterprise in more detail.

### ASSURANCE OF COMPLETION

A payment and performance bond is required. As an option, RHS and lender may accept a completion assurance agreement secured by a cash deposit or letter of Credit in the amount of 25 percent of the cost of construction or rehabilitation.

### RECOURSE

This is a non-recourse loan. Mortgagor assumes no personal liability.

### MAXIMUM MORTGAGE

In general, the maximum loan amount is limited to the lessor of (less the amount of grant/loan funds attributable to replacement cost items):

- Up to the lesser of 90 percent loan-to-cost or loan-to-value ratio for a for-profit enterprise, and up to the lesser of 97 percent loan-to-cost or loan-to-value ratio for nonprofit enterprise.
- A mortgage amount supported by debt service coverage of 115 percent.
- Statutory per-unit limitation.
- Permanent only loans securing GNMA mortgage-backed securities are limited to 70 percent or less loan-to-total development cost unless the project is an existing Rural Development 515 and then the program maximum loan-to-cost and loan-to-value criterion are applicable.
- Construction and Permanent loans are currently limited by Rural Development to a 70 percent or less loan-to-total development cost unless the project is an existing Rural Development 515 and then the program maximum loan-to-cost and loan-to-value criterion are applicable.



# USDA RHS 538 GUARANTEED RURAL RENTAL HOUSING

New construction or substantial rehabilitation of  
Multifamily or seniors housing

## TERMS, CONT'D.

### PREPAYMENT

Variations are possible based upon market conditions and borrower preferences. typically, a 10-year term. Years one and two are locked out then declining 1 percent per year starting in year three at 8%-7%-6%-5%-4%-3%-2%-1%-0%.

### ASSUMABILITY

The loan can be fully assumable. Labor standards - this program is not subject to davis-bacon wage rates and reporting requirements.

### REPLACEMENT RESERVES

A \$1,000 per unit balance must be attained by the end of year 3 from when the Permanent loan closes or converts.

## TYPICAL FEES

### DEVELOPMENT FEE

A developer fee is allowable under this loan program.

### RHS INITIAL FEE

.60 to .65 percent of the RHS guarantee amount, due at the closing of the loan transaction to RHS.  $(\text{loan amount}) \times (.90 \text{ RHS Guarantee}) \times (0.60 \text{ or } 0.65 \text{ RHS}) = \text{RHS initial Fee}$

### RHS ANNUAL FEE

0.25 to .35 percent of the outstanding principal amount of the loan as of December 31 of each year and due January 1 of each year to RHS = RHS annual fee

### LENDER FINANCING

To be determined and discussed as the lender fees and costs are determined by the size of the loan, the loan type and complexity of the transaction.

### LENDER PROCESSING FEE

Typically between \$3,500 to \$5,000 paid to the lender upon execution of the engagement letter.

## RESERVES

### OPERATING & MAINTENANCE RESERVE (O&M)

The borrower must contribute initial operating capital equal to at least 2 % of the loan amount and must be funded by the mortgagor with cash or a letter of credit at the closing of the transaction.

### CONSTRUCTION CONTINGENCY RESERVE

A Construction Contingency Reserve in the amount of 2 percent of the construction contract is required to cover additional costs during construction and must be funded by the mortgagor with cash at the closing of the construction transaction for the construction and permanent loan option.

### LEASE-UP RESERVE

Minimum of 3-months of underwritten operation reserves (including annual Replacement Reserve Deposits and RHS Annual Guarantee Fee) and debt service. The reserve must be accounted in the final Sources and Uses of funds, must be funded approximately 30-days prior to the issuance of the initial Certificate of Occupancy(s), and must be funded by the mortgagor with cash and not RHS 538 GRRHP proceeds.

### ESCROWS

Escrows for taxes, insurance, replacement reserves, and the RHS annual guarantee fee are required. Escrow payments will begin upon amortization.

### SECONDARY FINANCING

A loan can be combined with other financing sources such as: low income Housing tax Credits, ARRA funds, HoMe grant or loan, state or local assistance (including tax-exempt bond financing) or secondary financing.

### CONDITIONAL COMMITMENT

The conditional commitment will have a term of up to 24 months.

### THIRD PARTY EXPENSE DEPOSITS

Third party costs will be determined and paid to the lender upon execution of the engagement letter.

### INSPECTION FEE

The third-party construction inspection fee is approximately \$1,500 per inspection and typically will occur once a month for the construction and permanent loan option.

### GOOD FAITH DEPOSIT

Typically, 0.50 percent of mortgage amount for a construction and permanent loan or immediate permanent loan, and an estimate between 3.00 percent to 3.50 percent for a permanent forward rate lock. Good faith deposits are due upon acceptance of the RHS conditional commitment and refunded at closing.

Please contact **Bob Morton** (Senior Vice President & Director, RHS Program) for more detailed information regarding the RHS 538 GRRHP program. You can reach **Bob Morton** at **216.870.9935** and at [bob.morton@bwe.com](mailto:bob.morton@bwe.com).



# Rural workforce rental housing

USDA RHS 538 guaranteed rural rental housing

New construction or substantial rehabilitation of multifamily workforce housing

## Liberal tenant income and rent restrictions to support workforce housing developments

Tenant income restrictions of 115% of area median income (AMI) upon initial occupancy. Rents plus tenant paid utilities may not exceed 30 percent of 100 percent of area median income.


## Eligible transactions

Project must be in a designated “rural area,” as defined by USDA. See USDA RHS Eligibility map [here](#).

## Loan parameters

Loan options	Loan structure may be a construction to permanent or a forward commitment permanent only
Recourse	Non-recourse, construction completion guarantee may apply
Maximum mortgage amount	<p>The maximum loan amount is limited to the least of:</p> <ul style="list-style-type: none"> <li>• 90% Loan-to-restricted value</li> <li>• 70% Loan-to-cost</li> <li>• Debt service coverage ratio of 1.15</li> </ul> <p>The construction loan size is limited to the permanent loan size.</p>
Developer fee	<p>A developer fee is allowable under this loan program and is typically 7%-8% of total development costs.</p> <ul style="list-style-type: none"> <li>• The construction and permanent loan interest rate is fixed at initial closing for the life of the loan. The permanent loan only will be fixed for the life of the loan. During construction, the loan is interest only.</li> <li>• For a permanent only execution, a forward interest rate lock option of up to 24 months will be available once the RHS Conditional Commitment is received. Please discuss with BWE in more detail.</li> </ul>
Interest rate	
Loan modification	<p>Similar to an FHA loan, the loan may be modified throughout its life. An interest rate reduction (IRR) may be made to decrease the interest rate for the remainder of the loan term.</p>

Term and amortization	Mortgage term is a minimum of 25-years and a maximum of 40-years, and the maximum amortization is 40 years. Amortization begins at the conversion from the construction loan to the permanent loan, or the closing of the permanent loan only. The term limit applies to construction/renovation and permanent phase.
Prepayment	Prepayment is typically a 10-year term with years one and two locked out. After that the prepayment penalty declines 1% per year starting at 8% in year 3 then decreasing 8%-7%-6%-5%-4%-3%-2%-1%-0%.
Assumption	The loan is fully assumable.
Escrows	Escrows for taxes, insurance, replacement reserves and the RHS Annual Guarantee Fee are required. Escrow payments will begin upon amortization.
RHS Guaranty Fees	<ul style="list-style-type: none"> <li>Initial fee: 0.60%-0.65% of the RHS guarantee amount (90% of the loan amount) due at the closing of the loan transaction to RHS.</li> <li>Annual fee: 0.25% to 0.35% of the outstanding principal amount of the loan as of December 31 is due to RHS on January 1.</li> </ul>
Reserves	<ul style="list-style-type: none"> <li>Operating &amp; maintenance: Initial contribution is equal to at least 2% of the loan amount and must be funded by the mortgagor with cash or a letter of credit at the closing of the transaction (construction/permanent loan, and permanent loan only).</li> <li>Construction contingency: 2% of the construction contract is required to cover additional costs during construction and must be funded by the mortgagor with cash at the closing of the construction transaction (construction/permanent loan).</li> <li>Lease-up: Minimum of 3 months of underwritten operating reserve including annual replacement reserve deposits and annual RHS guaranty fee. Must be funded approximately 30 days prior to the issuance of the certificate of occupancy and must be funded by the mortgagor with cash and not RHS 538 proceeds (construction/permanent loan).</li> </ul>
Assurance of completion	A payment and performance bond is required. As an option, RHS and Lender may accept a completion assurance agreement secured by a cash deposit or letter of credit in the amount of 25% of the cost of construction or rehabilitation.
Davis-Bacon wages	This program is not subject to Davis-Bacon wage rates and reporting requirements.

 Visit [bwe.com](https://www.bwe.com) or contact your BWE representative to learn more.