

USDA RD Section 502 Program



Welcome to HAC's webcast!

The webcast, sound, and recording will begin at 2:00 pm EST.

Due to the number of participants, questions can only be accepted via the internet. Please click on the "Raise Hand" button at any time during the webcast and send a chat to the Chairperson.

U. S. Department of Agriculture Rural Development



Section 502 Direct Loan Program

-An Overview-



Purpose of Section 502 Direct Loans



- Low- and very low-income people the opportunity to own adequate, modest, decent, safe and sanitary homes in rural areas;
- Loans may be used to buy or build rural homes
- National Average Income Served: \$29,512
- Critical mortgage credit to rural residents where there has been a serious lack of available credit, or when available, at rates and terms low and very-low income rural residents could afford.

Purpose of Section 502 Direct Loans (Cont.)



- Rural Development provides direct, as-well-as guaranteed loans, in rural areas.
- Rural areas include open country and places with a population of 10,000 or less and, under certain conditions, towns and cities between 10,000 and 35,000 population;
- Low-income is defined as between 50 and 80 percent of area median income (AMI); Very low-income is at or below 50 percent AMI.

Rural Development Service Area and Eligibility Information



- RD Section 502 Direct Loan Program is a rural program. Service area, income and property eligibility can be determined by contacting the local RD Service Center or online at - <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
 - *Web link can be used to learn more about a USDA home loan program; Determine if a property is located in an eligible rural area; Determine income eligibility of an applicant/ household; or to find out how to apply for a Rural Development Loan.*

Section 502 Direct Loan Program Key Features



- Directly funded by the Federal government
- Down payments are generally not required
- Payment assistance is available for those who qualify
- Extended loan amortization term
- Promissory note interest rate is fixed
- Some closing costs may be financed
- Private Mortgage Insurance (PMI) or upfront fee is not required
- Refinancing allowed under special circumstances

Regulations



- Regulations for all USDA/RD single-family housing programs, including Section 502 direct loans, are compiled in 7 CFR Part 3550;
- Two handbooks provide details and instructions about the various aspects of the 502 program.
 - HB-1-3550 covers tasks undertaken by RD field offices;
 - HB-2-3550 explains the work of the agency's centralized servicing center
 - <http://www.rd.usda.gov/publications/regulations-guidelines> (*For Handbooks, Instructions, AN's, PN's, UL's, and Forms*)

Section 502 Direct Loan Terms



- Loans are for up to 33 years
- A 38-year term is available for those with incomes below 60 percent of area median income (AMI) and who cannot afford a 33-year term
- Term is 30 years for manufactured homes

Interest Rate and Payment Assistance



- Interest rate is set monthly by RHS
- Once the loan is closed the Note Interest rate is fixed.
- The Interest rate for purposes of the borrower's payment calculation, may be modified with payment assistance.
- Payment assistance is a subsidy that reduces the borrower's monthly installment payment by applying payment assistance which reduces the interest rate to as low as a 1% interest payment.
- By law, subsidy received in accordance with a 502 loan is repayable to the government using the calculation found in the subsidy repayment agreement, which essentially outlines how any earned equity in the property is applied toward the borrower's equity and the repayment of subsidy granted.

Eligibility Requirements



- Families must be without adequate housing but be able to afford the mortgage payments
- Must have a household income that does not exceed the low income limit for the area
 - Very low income is defined as below 50 percent of the AMI
 - Low income is between 50 and 80 percent of AMI
 - <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=pageLoad&requestInfo=DirectIncomeLimits&NavKey=incomelimit@11>

Eligibility Requirements – Cont.



- Applicants must be unable to obtain credit elsewhere
- They must demonstrate a willingness and ability to repay debt
- Repayment feasibility is based on repayment ratios
- Homebuyer education course required only for first time homebuyers

Credit Requirements



- Lending decision is not credit score driven
- Credit score used to expedite application processing
- Alternative credit verification used for applicants that lack sufficient traditional credit history
- Indicators of unacceptable credit
- An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a Section 502 loan

Income Ratio Limits



- PITI Ratio (principal, interest, taxes, insurance)
 - Very low income family: 29%
 - Low income family: 33%
- Total Debt Ratio takes in consideration all debts and the limit is 41% for both income categories
- Compensating Factors considered

Other Applicant Requirements



- Does not currently own adequate home
- Agree to occupy the dwelling as primary residence
- Legal capacity to incur debt (generally 18 years old)
- Must not be debarred from participation in Federal programs
- Be a U.S. citizen, a U.S. non-citizen national or a qualified alien
- Provide proof of identity

Homebuyer Education



- First-time homebuyers must complete homeowner education training and receive a certificate prior to closing.
- Certificate valid up to one year prior to closing.
- The RD State Office will maintain a list of providers with costs to homebuyer (if any).
- Packagers should refer borrowers to free homebuyer programs first.
- If there is a charge, the fee may be included in the loan.

Property Standards



- Property must be located in designated rural area
- Housing must be modest in size, design, and cost
- Market value must not exceed area loan limit
- Houses must meet state building code and RHS site standards
 - 2009 ICCE Building Codes (International Construction Code) for both Energy and Construction

Area Loan Limits



- To be considered “modest”:
 - the property must be considered modest for the area
 - must not have a market value in excess of the applicable area loan limit
 - must not have certain prohibited features
 - Area Loan Limits are reviewed annually
- http://www.rd.usda.gov/files/RD-SFHAAreaLoanLimitMap_0.pdf

Property Standards



- Cannot finance properties that include:
 - in-ground swimming pools
 - income producing structures or land
- Subject to environmental review and home inspection
- Manufactured housing must be permanently installed, must be new and never lived in and be purchased from an authorized dealer
- Housing Construction and Safety Standards and RHS thermal and site standards

Construction Options / Methods



- **Contractor Method**
 - Borrower qualifies for home loan and contracts with a builder to construct the home.
- ***Borrower Method***
 - Used only when other means are not available; basically acts as the general contractor for the project
- ***Owner-Builder Method***
 - Borrower qualifies for a home loan, demonstrates expertise to handle subcontracts and build own home.
- **Conditional Commitment (7 CFR 3550.70)**
- **Mutual Self-Help**
 - The borrower mutually builds their home with a group of families, with technical assistance provided by sponsor

Loan Packaging



- Applicants may engage the optional service of a loan application packager
- Implementation of the Certified Loan Packaging Final Rule be May 19, 2015
- Packaging fee is limited by the regulation, RD and Participating Intermediaries
- Fee can be paid at closing and, under certain conditions, may be included in RD loan amount.
- RD-authorized Packaging Trainings are hosted by HAC, NeighborWorks America, and RCAC.

Additional Information



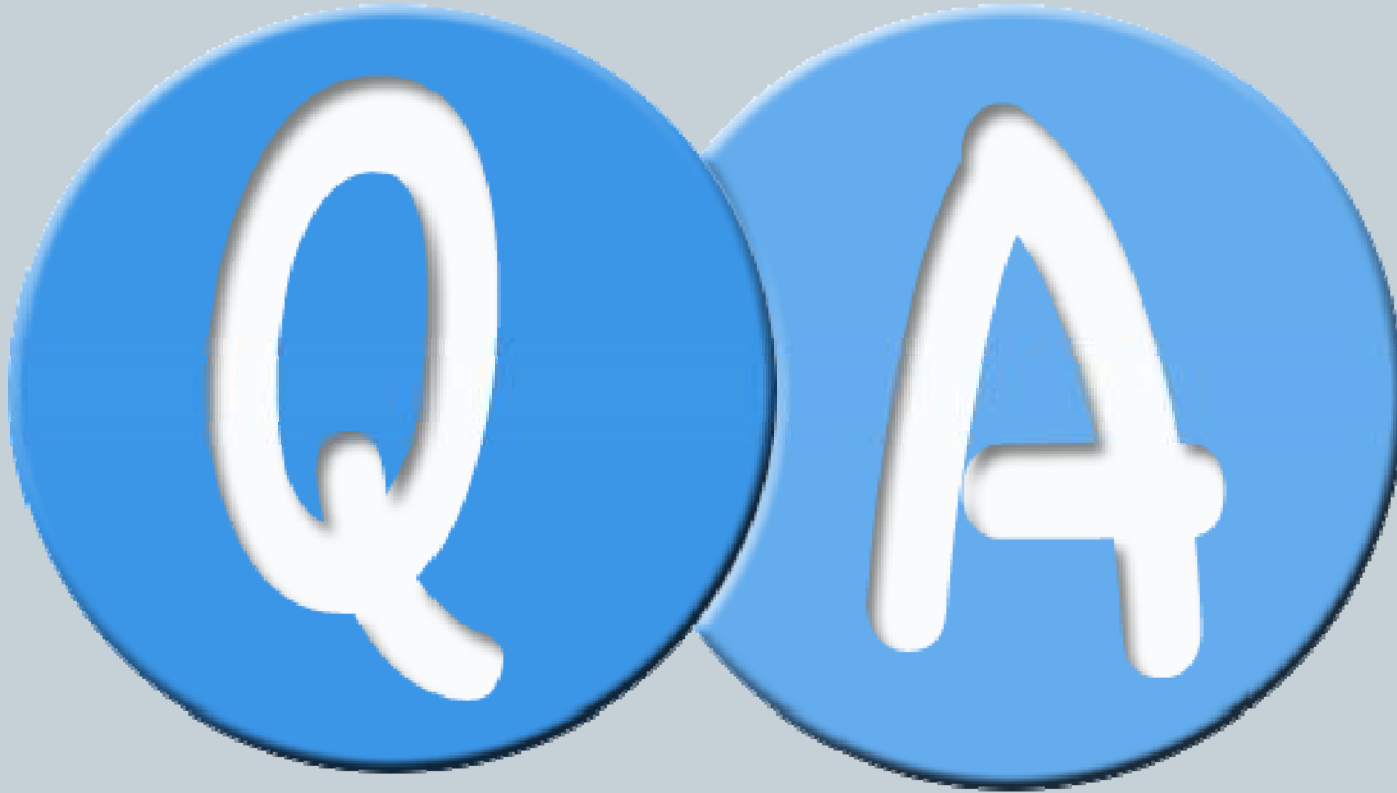
For additional information on the Section 502 Loan Program and Rural Development contact

USDA Rural Development - National Office
1400 Independence Avenue, S.W.,
Washington, DC 20250
Phone: (202) 690-1533

– or –

Contact your Rural Development State Office which can be identified at <http://www.rd.usda.gov/contact-us/state-offices> or by telephone at (202) 720-4323.

Wrap-Up



you Ask → we answer

Wrap Up



Materials from today's webinar
and the recording will be available
on HAC's website.

www.ruralhome.org

