

Section 502 Single Family Housing Guaranteed Loan Program

No down payment loans for rural borrowers with incomes below 115 percent of area median income as defined by USDA

BACKGROUND AND PURPOSE

The U.S. Department of Agriculture’s (USDA) Section 502 Single Family Housing Guaranteed Loan Program (Section 502 Single Family) is designed to serve eligible rural residents with incomes below 115 percent of area median income or AMI (see USDA definition in overview) who are unable to obtain adequate housing through conventional financing. Guaranteed loans are originated, underwritten, and closed by a USDA-approved private sector or commercial lender. The Rural Housing Service (RHS) guarantees the loan at 100 percent of the loss for the first 35 percent of the original loan and 85 percent of the loss on the remaining 65 percent. The program is entirely supported by the upfront and annual guarantee fees collected at the time of loan origination.

BORROWER CRITERIA

Income limits: This program is limited to borrowers with incomes up to 115 percent of AMI (as defined by USDA). Approximately 30 percent of Section 502 Single Family loans are made to families with incomes below 80 percent of AMI. An applicant must have dependable income that is adequate to support the mortgage.

Credit: Borrowers must have reasonable credit histories and an income that is dependable enough to support the loans, but be unable to obtain reasonable credit from another source.

First-time homebuyers: If funding levels are limited near the end of a fiscal year, applications are prioritized to accommodate first-time homebuyers.

Occupancy and ownership of other properties: The dwelling purchased with a Section 502 loan must be

PROGRAM NAME	Section 502 Single Family Housing Guaranteed Loan Program
AGENCY	U.S. Department of Agriculture’s Rural Housing Service
EXPIRATION DATE	Not Applicable
APPLICATIONS	Contact your local Rural Housing Service office: http://www.rd.usda.gov/contact-us/state-offices
WEB LINK	http://www.rd.usda.gov/publications/regulations-guidelines
CONTACT INFORMATION	Contact your local Rural Housing Service office: http://www.rd.usda.gov/contact-us/state-offices
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	Rural areas: To determine whether a property is in an eligible area, see http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp&NavKey=property@11

the borrower's primary residence. A borrower may be eligible to retain a current dwelling if it no longer meets the household's needs. The dwelling that the borrower is retaining, if applicable, may not be financed with a Section 502 Single Family loan or Section 502 Direct loan.

Special populations: If funding levels are limited near the end of a fiscal year, applications are prioritized to accommodate veterans.

Special assistance for persons with disabilities: Special design features or permanently installed equipment to accommodate a household member who has a physical disability may be financed into the loan.

Property types and allowable costs:

- Existing homes must meet minimum property standards as established in the current U.S. Department of Housing and Urban Development (HUD) Handbook.
- New dwellings must meet an acceptable building code.
- There are no restrictions on size or design.
- New manufactured homes are eligible. Existing manufactured homes are not eligible unless the home is already secured with a USDA Section 502 Direct mortgage. Manufactured homes do not have to be considered real property under the applicable jurisdictional laws.
- Necessary interior and exterior repairs that together with the purchase price do not exceed the appraised value of an existing home may be included in the loan.
- Reasonable and customary lender fees, connection fees, assessments, establishment of an escrow account for the payment of real estate taxes and insurance, and other eligible costs may be financed.
- Purchase and installation of energy efficiency measures (e.g., insulation, double-paned glass, and solar panels) is an allowable cost.
- Installation of fixed broadband service to the household is an allowable cost as long as the equipment is conveyed with the dwelling.
- Site preparation costs, including grading, foundation, plantings, seeding or sod installation, trees, walks, fences, and driveways are allowable costs.

Other: Applicants must meet U.S. citizenship or eligible noncitizen requirements.

LOAN CRITERIA

Loan limits: Loan limits do not apply.

Loan-to-value limits: The loan-to-value ratio may be up to 100 percent of market value or acquisition cost, whichever is lower.

POTENTIAL BENEFITS

USDA Section 502 Single Family Guaranteed Home Loans may allow community banks to expand their customer base among borrowers in rural communities with incomes below 115 percent of the area median income (as defined by USDA).

USDA offers up to a 90 percent guarantee.

POTENTIAL CHALLENGES

Community banks must be approved by USDA to lend under this program, and they may need to acquire or develop new expertise and infrastructure in order to participate.

Community banks must have access to the secondary market to use this program.

Down payment sources: Assets above the limits set by USDA must be used toward the home purchase; otherwise, no down payment is required. Applicants may use down payment assistance programs to assist with the down payment and/or payment of closing costs/fees.

Homeownership counseling: Counseling is not required.

Mortgage insurance: USDA charges guarantee fees that act as mortgage insurance, similar to the Federal Housing Administration (FHA). However, they are called “Guarantee Fees” not mortgage insurance in documentation. Where “insurance” appears in the Rural Housing Service’s documentation, it refers to homeowner’s insurance. The Rural Housing Service charges the lender a one-time upfront guarantee fee of up to 3.5 percent of the total loan amount. An annual fee of up to 0.5 percent also applies for the life of the loan. The lender may pass these fees on to the borrower and may finance them in the loan.

Debt-to-income ratio: Baseline ratios for the program based on gross monthly income are 29 percent for the principal, interest, real estate taxes, and insurance (PITI) and 41 percent for the total debt, which is the PITI plus additional recurring monthly debts. In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, USDA’s policy is to include 1 percent of the total student loan balance in the debt-to-income calculation, and to not lend to current students unless there is a reasonable likelihood that they will remain in the home after graduation.

Temporary interest rate buy downs: Borrowers must qualify at the full note interest rate, but temporary interest rate buy downs are allowed.

Refinance: Refinance is allowed for current Section 502 Single Family loans or Section 502 Direct loans. Non-USDA loans are ineligible to be refinanced into the Section 502 Single Family Home Loan program.

Interest rate: Fixed interest rates are negotiated between the lender and applicant. The interest rate may not exceed the market rate. Adjustable-rate mortgages, balloons, interest-only, and other loans are not eligible options.

Term: Loans must have 30-year amortization terms.

Secondary market: Loans are acceptable to Fannie Mae, Freddie Mac, and Ginnie Mae.

Guarantee: Rural Housing Service guarantees the loan at 100 percent of the loss for the first 35 percent of the original loan and 85 percent of the remaining 65 percent. The maximum loss payable by RHS cannot exceed 90 percent of the original loan amount.

Potential Benefits

- USDA Section 502 Single Family Guaranteed Home Loans may allow community banks to expand their customer base among borrowers in rural communities with incomes below 115 percent of AMI (as defined by USDA).
- USDA offers up to a 90 percent guarantee.
- Section 502 Single Family Guaranteed Home Loans offer competitive pricing and terms.
- Loans originated through USDA may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

Potential Challenges

- Community banks must be approved by USDA to lend under this program, and they may need to acquire or develop new expertise and infrastructure in order to participate.
- Community banks must have access to the secondary market to use this program.
- A limited pool of borrowers is eligible for this program due to the geographic constraints and income limits. Borrowers must have reasonable credit histories and an income that is dependable enough to support the loans, but be unable to obtain affordable credit from another source.
- The servicer must have an escrow system for taxes and insurance.

SIMILAR PROGRAMS

- USDA Section 502 Direct Loan
- VA Home Purchase Loan Program
- FHA 203(b) Mortgage Insurance Program

RESOURCES

Area and county loan limits

http://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap_0.pdf

Minimum property standards

<http://www.rd.usda.gov/files/3550-1chapter05.pdf>

International building code adopted throughout most of the United States

<http://www.iccsafe.org/codes-tech-support/codes/2015-i-codes/ibc/>

Property rural status and eligibility

<http://eligibility.sc.egov.usda.gov>