



The Housing Assistance Council (HAC)

is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender.

For more information about rural housing, visit HAC online.



www.ruralhome.org

USDA Guaranteed Rural Housing Loans (Section 502)

Under the Section 502 Guaranteed Rural Housing Loan Program the government guarantees mortgage loans made by commercial lenders, enabling low- and moderate-income rural residents to purchase modestly priced homes.

Purpose

The Section 502 Guaranteed Rural Housing Loan Program is designed to serve rural residents who have a steady, low or modest income, and yet are unable to obtain adequate housing through conventional financing. These loans enable low- and moderate-income rural residents to acquire modestly priced homes. They can be used to purchase new or existing dwellings or new manufactured homes.

The U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs office (RD) administers the program. RD does not make loans directly to eligible borrowers, but guarantees loans made by commercial lenders. This guarantee substantially reduce the risk for lenders, thus encouraging them to make loans to rural residents who have only modest incomes and little collateral.

Eligibility

An eligible applicant must have an adequate and dependable income (up to 115 percent of adjusted area median income [AMI]) and a decent credit history, and must be unable to qualify for conventional mortgage credit.

Terms

Loans must be from lending institutions that have been approved by RD. Loans have 30-year terms and fixed market-level interest rates. Loans may be for up to 100 percent of market value or for acquisition cost, whichever is less. The maximum loan amount is based on what the homeowner can afford. Loans may include closing costs, legal fees, title services, the cost of establishing an escrow account, and other

There are important differences between the Section 502 guaranteed and Section 502 direct programs. Guaranteed loans are made by private lenders such as banks, whereas direct loans are made by USDA. Borrowers with incomes up to 115% of area median income can qualify for guaranteed loans, while direct borrowers have incomes not more than 80% of area median.



prepaid items as long as the appraised value is higher than the sales price.

In addition, RD charges the lender a one-time guarantee fee of up to 3.5 percent of the loan amount, and an annual fee of up to 0.5 percent of the mortgage balance. These fees support the cost of administering the program – in other words, on balance this program does not cost the federal government money. The lending institution may choose to pass the charges along to the borrower.

RD guarantees the loan at 100 percent of the loss for the first 35 percent of the original loan and the remaining 65 percent at 85 percent of loss. The maximum loss payable by RD cannot exceed 90 percent of the original loan amount.

Standards

The residence to be purchased with the guaranteed loan must conform to the CABO Model Energy Code and to the structure, facility, and termite standards established by the U.S. Department of Housing and Urban Development. There are no restrictions on size or design. Typical amenities, except in-ground swimming pools, are allowed. Manufactured homes must be new and permanently installed.

ADDITIONAL INFORMATION

Interested borrowers should contact their local Rural Development office for more information on the program and a list of approved lenders. The loan application itself is made to the approved lender, and is subject to their schedule for loan approval. Approximately 30 percent of guaranteed 502 loans are made to families with incomes below 80 percent of AMI.

More details about Section 502 guaranteed loans and RD are available online at http://www.rurdev.usda.gov/HAD-Guaranteed_Housing_Loans.html.

Interested borrowers, lenders, or others can also contact the National Office, 1400 Independence Avenue, S.W., Washington, D.C. 20250, 202-690-1533, or your Rural Development State Office, which can be identified at http://www.rurdev.usda.gov/recd_map.html or contacted by telephone through 202-720-4323.

RD regulations and handbooks are available online at <http://www.rurdev.usda.gov/RegulationsAndGuidance.html>. The Section 502 guarantee program is governed by regulations at 7 CFR part 1980, or RD's Instruction 1980.

Differences Between the Section 502 Guaranteed and Direct Loan Programs

There are several other Section 502 loan programs, but the only one that approaches the guaranteed program in number of loans made is the Homeownership Direct Loan Program. This program once accounted for almost all the Section 502 loans, but the number of guaranteed loans has greatly increased in the last few years. In Fiscal Year 2011, the guaranteed program obligated approximately \$16.8 billion for 130,000 loans, while the direct program obligated approximately \$1.2 billion for a total of 9,700 loans. (These figures do not include spending under the American Reinvestment and Recovery Act.)

The important differences between the Section 502 guaranteed and direct loan programs are:

- *The lender* for Section 502 guaranteed loans is a private savings and loan institution, bank, or mortgage company which also handles all the loan servicing. The lender and servicer for the direct program is USDA RD.
- *Income levels* for Section 502 guaranteed borrowers are capped at 115 percent of the area median income. Income levels for the direct program must be no more than 80 percent of the AMI. The most recent available data show that in FY 2009, the average income for borrowers with guaranteed loans was \$26,600, while those with direct loans averaged nearly \$48,000.
- *Payment assistance subsidy* is not available through the guaranteed program. Payment assistance, which can reduce the interest paid on the mortgage to as low as 1 percent, is available for borrowers in the direct program and is based on the borrower's income.
- *Borrower protections* differ between the programs. Applicants for guaranteed loans do not have the rights of moratorium or of appeal that accompany the direct program. Also, in the case of default, Section 502 guaranteed loans are liquidated by the commercial lender, while direct loans are liquidated by the government.

Housing Assistance Council