Description of Ag's Rural Housing Service Program

The Rural Housing Service(RHS) has two principal programs to serve the housing needs of individuals in rural areas: the direct loan program and the loan guarantee program. Unlike HUD, RHS does not offer any targeted programs for seniors, veterans, disabled people, etc. They do have a program for community facilities for not-for-profits, Indian tribes, and local and state governments which I'll go into later but that's about it.

Direct Loan Program

Parameters: This program is open to individuals in rural areas with incomes less than 80% of the median income level of their communities. RHS defines rural areas as any town with a population of 20,000 or less. Families must not already have adequate housing. Applicants must not have been able to receive a loan from other sources but still be a reasonable credit risk.

Benefits: RHS directly makes loans to eligible individuals and families to completely finance the new home. The term limit is 33 years with an interest rate of 7.25%. The unique thing about the program is that the program is set up so that an individual can't pay more than 26% of his income for housing. RHS will provide subsidies to the individual or family to ensure that that is the case.

Loan Guarantee Program

Parameters and Benefits: Very similar to all other loan guarantee programs. Key difference, especially compared to Direct Loan Program, is that individual can have income up to 115% or area median income. Again, applicants must not already have adequate housing, must not have been able to secure a loan through other means, and must be a reasonable credit risk.

Community Facilities Direct Loan Program

Parameters: Applicants must be not-for-profit corporations, tribal governments, or local and state government entities. The loan must be used to construct or improve facilities for health care, public safety, or other public services.

Benefits: RHS makes direct loans to these institutions to completely finance the cost of the facility. The interest rate is set at either poverty(4.5%), market, or intermediate(halfway between market and poverty). The interest rate for the loan depends on the type of the project and the median income of the community. The maximum term limit allowable is forty years.

In addition to this program, RHS also offers a loan guarantee program and a grant program to build or improve community facilities.

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Rural Housing Direct Loans

Rural Housing Direct Loans are loans that are directly funded by the Government. These loans are available for low- and very low-income households to obtain homeownership. Applicants may obtain 100% financing to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas. The purpose of this loan is to provide financing at reasonable rates and terms with no down-payment. Mortgage payments are based on the household's adjusted income. These loans are commonly referred to as Section 502 Direct Loans.

Purpose: Section 502 loans are primarily used to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities.

Eligibility: Applicants for direct loans from RHS must have very low or low incomes. Very low income is defined as below 50 percent of the area median income (AMI); low income is between 50 and 80 percent of AMI; moderate income is 80 to 100 percent of AMI. Area income limits for this program are here.

Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. These payments are typically within 22 to 26 percent of an applicant's income. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories. Elderly and disabled persons applying for the program may have incomes up to 80 percent of area median income (AMI).

Terms: Loans are for up to 33 years (38 for those with incomes below 60 percent of AMI and who cannot afford 33-year terms). The term is 30 years for manufactured homes. The promissory note interest rate is set by RHS, and in July 1999 it was 7.25%. However, that interest rate is modified by payment assistance subsidy.

The interest rate and amount of subsidy are determined by family income as percentage of AMI so that a family pays from 22 to 26 percent of their income for principal, interest, taxes, and insurance (PITI) up to an amount not exceeding the promissory note rate.

There is no required down payment. RHS must also determine repayment feasibility, using ratios of repayment (gross) income to PITI and to total family debt.

Standards: Under the Section 502 program, housing must be modest in size, design, and cost. Modest housing is generally defined as housing costing less than the HUD Section 203 (b) loan limits as of 9/30/98. Houses constructed, purchased, or rehabilitated must meet the voluntary national model building code adopted by the state and RHS thermal and site standards. Manufactured housing must be permanently installed and meet the HUD Manufactured Housing Construction and Safety Standards and RHS thermal and site standards.

Approval: Rural Development officials have the authority to approve most Section 502 loan requests. Decisions on complete applications are generally made within 30 days of the Rural Development office's receipt of the application.

*Basic Instruction:*7 CFR Part 3550 and HB2-3550

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Single Family Housing Loan Guarantees (Section 502)

Section 502 loans are primarily used to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities.

Eligibility: Applicants for loans may have an income of up to 115% of the median income for the area. Area income limits for this program are here. Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories.

Approved lenders under the Single Family Housing Guaranteed Loan program include:

- Any State housing agency;
- Lenders approved by:
  - HUD for submission of applications for Federal Housing Mortgage Insurance or as an issuer of Ginnie Mae mortgage backed securities;
  - the U.S. Veterans Administration as a qualified mortgagee;
  - Fannie Mae for participation in family mortgage loans;
  - Freddie Mac for participation in family mortgage loans;
- Any FCS (Farm Credit System) institution with direct lending authority;
- Any lender participating in other USDA Rural Development and/or Consolidated Farm Service Agency guaranteed loan programs.

Terms: Loans are for 30 years. The promissory note interest rate is set by the lender.

There is no required down payment. The lender must also determine repayment feasibility, using ratios of repayment (gross) income to PITI and to total family debt.

Standards: Under the Section 502 program, housing must be modest in size, design, and cost. Houses constructed, purchased, or rehabilitated must meet the voluntary national model building code adopted by the state and RHS thermal and site standards. Manufactured housing must be permanently installed and meet the HUD Manufactured Housing Construction and Safety Standards and RHS thermal and site standards.

Approval: Rural Development officials have the authority to approve most Section 502 loan guarantee requests.

*Basic Instruction:*7 CFR Part 3555.

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Community Facilities Loan Program

Who may apply

Community Programs can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. Loans and guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to non-profit corporations and tribal governments.

Applicants must have the legal authority to borrow and repay loans, to pledge security for loans, and to construct, operate, and maintain the facilities. They must also be financially sound and able to organize and manage the facility effectively.

Repayment of the loan must be based on tax assessments, revenues, fees, or other sources of money sufficient for operation and maintenance, reserves, and debt retirement. Feasibility studies are normally required when loans are for start-up facilities or existing facilities when the project will significantly change the borrower's financial operations. The feasibility study should be prepared by an independent consultant with recognized expertise in the type of facility being financed.

Community Programs can guarantee loans made and serviced by lenders such as banks, savings and loans, mortgage companies which are part of bank holding companies, banks of the Farm Credit System, or insurance companies regulated by the National Association of Insurance Commissioners. Community Programs may guarantee up to 90% of any loss of interest or principal on the loan. Community Programs can also make direct loans to applicants who are unable to obtain commercial credit.

Fund Uses

Loan funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services. This can include costs to acquire land needed for a facility, pay necessary professional fees, and purchase equipment required for its operation. For examples of essential community facilities click here.

Refinancing existing debts may be considered an eligible direct or guaranteed loan purpose if the debt being refinanced is a secondary part of the loan, is associated with the project facility, and if the applicant's creditors are unwilling to extend or modify terms in order for the new loan to be feasible.

Rates & Terms

For the direct loan program there are three levels of interest rates available (poverty, intermediate, and market) each on a fixed basis. The poverty rate is set at 4.5%. The market rate is indexed to the eleventh bond buyers rate as determined by the U. S. Treasury Department. The intermediate rate is set halfway between the market and the poverty rates. Eligibility for these different interest rates is determined by the median household income (MHI) of the area being served and the type of project. The intermediate and market interest rates are adjusted quarterly. Contact your Rural Development State Office to determine the eligible interest rate for your area.

For the guaranteed loan program, the interest rate is the lender's customary interest rate for similar projects. The interest rates for guaranteed loans may be fixed or variable and are determined by the lender and borrower, subject to RHS review and approval.

Loan repayment terms may not exceed the applicant's authority (under State law or organizational structure), the useful life of the facility, or a maximum 40 years.

Security Requirements

Bonds or notes pledging taxes, assessments, or revenues will be accepted as security if they meet statutory requirements. Where State laws permit, a mortgage may be taken on real and personal property. Tax-exempt notes or bonds may be issued to secure direct loans, but cannot be used for guaranteed loans.

Application Processing

Applications are handled by USDA Rural Development field offices. Rural Development staff will be glad to discuss a community's needs and the services available from RHS and other agencies within USDA. Field staff can provide application materials and current program information, and assist in the preparation of an application.

The CF application process is a two-stage procedure (preapplication and application). Approximately 45 days is required to determine applicant eligibility, project priority status, and funding availability. After an application is submitted, time to process the application depends upon the scope of the project, environmental review, and legal issues.