

U.S. Department of Agriculture

We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.

OVERVIEW

The U.S. Department of Agriculture (USDA) Rural Development's (RD) single-family lending programs provide a path to homeownership for people living in rural areas making between 50 and 115 percent of area median income. This section focuses on the elements of USDA's housing programs that offer opportunities for bank participation.

Rural Development (RD) oversees housing, community facilities, water and waste disposal, utilities, broadband access, and financing for rural businesses. USDA maintains an extensive network of field offices in rural areas across the country.

The Section 502 Single Family Housing Guaranteed Loan program (Section 502 Single Family) is funded through fees so it is not subject to appropriations. Community banks can directly originate, underwrite, fund, and/or service these loans.

Unlike the Section 502 Single Family program, Section 502 Direct loans and Section 504 Repair Loans and Grants are subject to appropriations. For these programs, RD acts as the lender, but community banks can help customers access the program by acting as fee-based loan packagers. RD's liquidity for these programs is obtained through the recycling of loans and through Ginnie Mae, with appropriated funds acting as either grants or equity to write down the effective loan rate.

Although housing costs are generally lower in rural communities, lower incomes make housing options unaffordable for many rural residents. Rural communities are four times more likely than urban areas to have at least 20 percent of their population living in poverty.

USDA provides specific definitions for very low-, low-, and moderate-income borrowers that differ from the Community Reinvestment Act definitions. USDA Rural Housing programs assist rural borrowers who have very-low incomes (below 50 percent of area median income or AMI), low-incomes (below 80 percent of AMI), and moderate-incomes (the greater of 115 percent of the AMI, 115 percent of the average of the state and state non-metro area median incomes, or 115/80 percent of the area low-income limits). The definition of moderate income for rural areas is set higher than the AMI because incomes overall tend to be low compared to urban areas so that the area median income is also significantly lower. Therefore, people above the area median income may still require assistance to afford adequate housing.

Programs covered in this section:

Section 502 Single Family Housing Guaranteed Loan: Helps rural residents who have a steady income of not more than 115 percent of AMI (as defined by USDA), but are unable to obtain conventional financing by offering a guarantee on loans originated by private lenders. This guarantee substantially reduces the risk for lenders, thus encouraging them to make loans to rural residents who have only modest incomes and little collateral.

Section 502 Direct Loan: This program assists applicants with incomes below 80 percent of AMI (as defined by USDA) in obtaining decent, safe, and sanitary housing. Section 502 Direct loans are underwritten and serviced by USDA at market interest rates, but payment assistance is used to bring the interest rate down to as low as 1 percent.

Section 504 Repair Loans and Grants: Helps owner occupants with incomes less than 50 percent of AMI (as defined by USDA) repair, improve, or modernize a home, with a special focus on removing health and safety hazards. Limited purpose grants are available for senior homeowners who cannot repay a loan.

DOING BUSINESS WITH USDA

Benefits

For community banks that operate in rural areas, financing guaranteed by USDA may be a good option for households with incomes less than 115 percent of area median income (as defined by USDA) who find it difficult to meet the down payment requirements of conventional loans. USDA financing carries a 90 percent guarantee. Lenders can also help meet the special needs of rural customers as fee-based packagers for USDA's direct loan and grant programs to very-low and low-income households.

Delivery Options

Becoming a USDA lender

Lenders with a service area confined to a single state may apply through their state USDA Rural Development office. However, to originate loans in more than one state, lenders must apply with a consolidated application through the national USDA Rural Development office. Application requirements for single state and national lenders are the same.

Lenders are generally approved on the basis of expertise demonstrated through participation in other single-family loan making programs. They may demonstrate approval for single-family loan activities by a secondary market entity such as Fannie Mae, Freddie Mac, or Ginnie Mae, and show evidence of having originated, underwritten, and/or serviced single-family residential mortgages in the past year.

Banks without other secondary market entity approval can apply by demonstrating ability and expertise in mortgage lending activity. A lender that does intend to service USDA loans must provide a written plan of policies and procedures for servicing residential mortgage loans, evidence of a written plan if the lender contracts for escrow services, and evidence that the lender has serviced single-family residential mortgage loans in the year before applying for USDA approval.

The originating lender may be required to indemnify Rural Development should the Agency determine that negligent underwriting attributed to a loss claim payment paid by the Agency.

USDA maintains an extensive network of state and local offices, so the first step for lenders interested in participating in the program is to contact the relevant State Guaranteed Loan Coordinator. Approval as an accredited lender is conditional on completion of mandatory training. The State Guaranteed Loan Coordinator is the best source of information

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about training requirements and availability. Forms, guidance, training, and marketing materials can be accessed through the online portal USDA LINC (Lender Interactive Network Connection).

Becoming a USDA Servicer

To service USDA loans, a lender must provide USDA with written criteria concerning the policies and procedures that they use for servicing residential mortgage loans. If a lender intends to contract with other entities for tasks such as servicing or holding funds for taxes and insurance in escrow, they must contract with agency-approved entities and provide a written contracting plan.

Originating USDA loans as a correspondent lender or approved investor

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names, and then sell them to investors who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In others, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors with the lender carrying out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor.

Banks can originate USDA loans by working with an investor that will underwrite and close the loan in its name or purchase the USDA loan after it closes. The originating lender can close USDA loans in its name as long as the loan was reviewed by the approved lender investor and is transferred to the approved lender investor immediately upon closing and before issuance of a loan note guarantee. A USDA loan may be sold only to a lender approved by Fannie Mae or Freddie Mac. The lender investor is responsible for meeting USDA standards for loan origination, underwriting, and closing activities.

Selling USDA Loans

USDA does not purchase and securitize loans. Instead, USDA loans are delivered to the secondary market through Ginnie Mae's guaranteed mortgage-backed

securities. Securities are issued by private financial institutions and payments to investors in these securities are guaranteed by Ginnie Mae, a government organization within the U.S. Department of Housing and Urban Development (HUD). USDA lenders can sell USDA loans by:

- becoming a Ginnie Mae approved issuer;
- selling USDA loans to Fannie Mae or Freddie Mac (for Freddie Mac, sellers must obtain special approval and loans have recourse to the lender); or
- selling USDA loans to third-party Ginnie Mae-approved industry conduits or aggregators, including certain Federal Home Loan Banks and state housing finance agencies.

System Requirements and Quality Control

Lenders are encouraged to originate Section 502 Single Family loans entirely online. The Guaranteed Underwriting System, or GUS, is an automated system designed to help authorized lenders process Section 502 Single Family loan applications. There is no fee to use it, and its use is optional. GUS may be used for eligibility determination, prequalification, or final submission to USDA's Rural Development. USDA has a national coordinator to ensure that state offices create efficient systems for reviewing loan applications, storing loan documentation, offering conditional commitments, accounting for individual state requirements and waivers, and working with lenders to correct deficiencies.

Lenders are required to have a written quality control plan and a quality control team that operates independently from the loan origination or servicing function. Lenders may also contract with outside parties to carry out quality control functions.

Funding Availability

While the Section 502 Single Family program is not funded through appropriations, there is a limit to the loan volume the government will guarantee each year. States in which demand exceeds supply may apply for funds to be reallocated from states that are not using their caps. Processing times vary depending on funding availability, program demand in the area in which an applicant is interested in buying, and completeness of the application package.

RESOURCES

USDA Rural Development Guaranteed Loan Program Technical Handbook: Rules and regulations covering all aspects of the Rural Development Guaranteed Loan Program.

<http://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555>

USDA Rural Housing Single Family Housing Guaranteed loan contacts: Contact information for all state guaranteed loan coordinators.

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=GetRHContact&NavKey=contact@12>

USDA Lender Interactive Network Connection: Lender training and resource library.

<https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>

USDA income and property eligibility site: Allows lenders to enter a property address to determine eligibility for USDA's loan programs.

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

Fannie Mae's guidance on delivery of USDA loans

https://www.fanniemae.com/content/fact_sheet/liquidity-for-government-guaranteed-rural-and-native-american-loans-fact-sheet.pdf

Freddie Mac's guidance on delivery of USDA loans

<http://www.freddiemac.com/singlefamily/expmkts/guarrur.html>

Doing business with Ginnie Mae

<http://www.ginniemae.gov/pages/default.aspx>

Approved Ginnie Mae issuers

http://www.ginniemae.gov/issuers/third_party_providers/Pages/document_custodian.aspx