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.

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 regulatory 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:

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.

Single Family Housing Direct Loan: This program assists applicants with incomes below 80 percent of AMI (as defined by USDA) in obtaining decent, safe, and sanitary housing. 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.

Single Family Housing Repair Loans and Grants: This program helps homeowners with household income 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. Grants are available for applicants living in extreme poverty, which is defined as household income less than 30 percent of the adjusted median income limit or applicants without repayment ability (total debt exceeding 46 percent). Applicants with a reliable source of income and repayment ability based on a total debt ratio not to exceed 46 percent can obtain a loan or combination loan and grant. Loans and grants can be combined providing up to $27,500 in assistance.

The Single Family Housing Guaranteed Loan Program 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 Guaranteed Loan Program, the Direct Loan Program and USDA Housing 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.

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 USDA determine that negligent underwriting attributed to a loss claim payment.

PROGRAMS IN THIS SECTION:

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.

Single Family Housing Direct Loan: This pro gram assists applicants with incomes below 80 percent of AMI (as defined by USDA) in obtaining decent, safe, and sanitary housing. 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.

Single Family Housing Repair Loans and Grants: This program helps homeowners with household income 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. Grants are available for applicants living in extreme poverty, which is defined as household income less than 30 percent of the adjusted median income limit or applicants without repayment ability (total debt exceeding 46 percent). Applicants with a reliable source of income and repayment ability based on a total debt ratio not to exceed 46 percent can obtain a loan or combination loan and grant. Combination loan and grants can be combined providing up to $27,500 in assistance.

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 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 USDA-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 an approved lender-servicer. 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 guaranteed loans entirely online using the Guaranteed Underwriting System, or GUS, which is an automated system designed to help authorized lenders process 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. The USDA National Headquarters staff of the Guaranteed Loan Division 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.

RESOURCES

Direct access to the following web links can be found at https://www.fdic.gov/mortgagelending.

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

https://www.rd.usda.gov/publications/regulations-guidelines/handbooks

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

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

USDA lender eligibility

https://www.law.cornell.edu/cfr/text/7/3555.51

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

https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library

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

Using USDA's Single Family Housing Guaranteed Loan Program

The FDIC talked with community bankers about their participation in the U.S. Department of Agriculture's Single Family Housing Guaranteed Loan Program. The following are excerpts from these discussions.

The USDA Single Family Housing Guaranteed Loan Program is a no down payment loan product geared toward low- and moderate-income rural borrowers who might lack the necessary resources to secure a conventional loan.

Working with USDA

Banks have options about how they work with USDA and can become an approved lender on a national or state level. One bank, which covers a tristate area, decided to become a USDA national lender. The national approval allows the bank to originate USDA loans in any state in the country. Another banker stated that her bank has been making USDA loans for the past eight years as a state-specific lender. Both bankers said that once the banks were approved, USDA offered training for both operations staff and loan officers.

The USDA national lender bank representative described the 30- to 60-day lender approval process as straightforward. "The approval process was fairly easy. You complete your application, you get your approval, and then you go through some training. It's not an overwhelming process." In addition, there were not any costs (upfront or annual renewal fees or system costs) incurred by the institution to become a USDA lender.

One representative stated that his bank works with an investor that underwrites its USDA loans and buys them after closing. The bank originates the loan and puts the USDA loan package together for the investor's and USDA's approval. Once the investor and the USDA approve the loan, the loan can close in the bank's name. "Regardless of whether you are underwriting in-house or you are going to an investor to underwrite it for you, USDA still has to sign off on the deal." After the loan closes, the bank sells the loan to the investor. "Having the eventual investor underwrite the loans provides a level of comfort for the bank since I know [before it closes] that they are going to buy it," said the representative. This helps protect the bank from possible repurchase risk while its staff members continue to build their expertise in the product.

Benefits of Offering USDA Loans

For one small community bank, the USDA Single Family Housing Guaranteed Loan Program offers another way to help customers become homeowners, and also enables the bank to deliver loans into the secondary market. The banker said that her bank decided to start offering USDA loans because USDA allows higher loan-to-value ratios and somewhat lower credit scores than the bank can offer using its regular products. She added that "USDA's product has a fixed rate and you have the ability to roll repair costs into the financing if needed." Her bank originates, underwrites, and closes its own USDA loans, and then sells the loans to an investor.

Challenges of Offering USDA Loans

One of the biggest challenges with these loans is the appraisal process and making sure the property meets the HUD handbook guidelines, said one representative. (USDA uses the HUD guidelines for its programs.) "There is usually much negotiating between the seller and the buyer on what needs to be done to meet the HUD handbook standards with regard to outlets, painting, roofing, etc. It is a good program, but this leads to delays and frustration with both the buyer and the seller. It takes time to negotiate who will pay, getting the work performed, and getting the final inspection from the appraiser."

In addition, these lenders report that the program loans can help address the needs of borrowers with more limited reserves, lower credit scores, or somewhat higher debt-to-income ratios than conventional fixed-rate loans. However, they need added underwriting time to ensure that standards are addressed. Another banker added that USDA loans do take more time to process, but her bank continues to offer the loan product because the low down payment benefits the customer. She noted that the product helps serve first-time homebuyers, which make up about 75 percent of the bank's customers for these loans.

One banker explained that management is focused on making sure all the loan officers are familiar with the basic components and characteristics of all of the bank's mortgage products, including the USDA programs. To spread the word, the executives hold monthly meetings where they educate loan officers about the various products and how they might benefit potential customers. This way, if a customer who might be a good fit for the USDA product comes in and speaks with a loan officer who is less familiar with originating the USDA product, the officer can still identify the customer as a good match with the product and refer the opportunity to a loan officer with more USDA experience. Another representative uses both USDA's materials on loan requirements and a bank-created promotional flyer for the program that includes the contact information for the individual lenders to communicate the program opportunity.

Advice to Other Bankers Considering USDA

When asked what advice they would give to other bankers considering offering the USDA's Single Family Housing Guaranteed Loan Program, one banker offered, "I think I would start out originating USDA loans with an investor through a correspondent relationship to reduce the repurchase risk until you are comfortable with the product. And make sure your staff is trained well." Another representative added that when looking for an investor, a bank should seek out a company that, among other things, is easy to work with, has clear instructions on file content, and minimal overlays beyond the USDA program guidelines.