

USDA Rural Housing Finance Programs

Loan Guarantee, Leveraged Loan, and Multifamily Loan

Introduction

The United States Department of Agriculture's (USDA's) Rural Development (RD) has created private market financing programs to help low- and moderate-income rural residents obtain safe and affordable housing. Rural areas are defined as open country and communities with populations of 10,000 or less. Towns and cities with populations between 10,000 and 25,000 may also be considered as rural, under certain conditions.

What Is the Loan Guarantee Program (Section 502)?

The USDA RD administers the Section 502 Loan Guarantee Program. Loans are granted for single-family homes, are guaranteed up to 90 percent, and can be sold on the secondary market. They may be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities.

Participating lenders may be eligible for favorable consideration under the Community Reinvestment Act (CRA).

The Rural Development Guarantee

USDA Rural Development Single Family Housing Program serves as a safety net for mortgage lenders. The USDA provides the full faith and assurance of the U.S. government that any financial loss resulting from servicing the loan will be reimbursed in full up to an amount not exceeding 90% of the original loan amount.

All loss up to an amount not exceeding 35% of the original loan is fully reimbursed. Any loss amount exceeding the 35% is 85% reimbursed. This leaves the lender only 15% exposed on the loss amount above the 35% of original loan. In the majority of cases, the total loss does not exceed 35% of the original loan and the lenders are fully reimbursed.

Eligibility

- Applicants for loans may have an income of up to 115 percent of the median income for the area.
- Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance.
- An applicant family must have a credit record that reflects a reasonable credit history.
- This program is not limited to first time homebuyers.

Standards

Under the 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 the Housing and Community Facilities Program's (HCFP) thermal and site standards. New manufactured housing must be permanently installed and meet the HUD Manufactured Housing Construction and Safety Standards and HCFP thermal and site standards. Existing manufactured housing will not be guaranteed unless it is already financed with an

HCFP direct or guaranteed loan or it is Real Estate Owned (REO) formerly secured by an HCFP direct or guaranteed loan.

Terms Include

- Loans carry a 30-year fixed rate. The lender sets the promissory note interest rate.
- The lender must also determine repayment feasibility, using ratios of repayment (gross) income to principle/interest/taxes/insurance and to total family debt.
- Loans are made to individuals for up to 100 percent of the appraised value of the home, and therefore, no down payment is required.
- Loans are not limited to first time homebuyers.

How Banks Can Participate

Approved lenders under the program include any supervised lender participating in other USDA RD and/or Farm Service Agency guaranteed loan program; or approved by U.S. Department of Housing and Urban Development for submission of applications for Federal Housing Mortgage Insurance or as an issuer of Ginnie Mae mortgage backed securities.

What Is the 502 Leveraged (Blended) Loan Program?

The leveraged loan program combines a direct, low interest rate, 502 loan from RD with a conventional first mortgage loan from a bank. The leveraged loan payment is considered when calculating the payment assistance (sometimes referred to as a “subsidy”) on the RD loan, when the leveraged bank loan is amortized for at least 30 years with interest no higher than 3%.

The program permits lenders to sell their portion of the loan (up to 50 percent loan-to-value) in the secondary market. The mortgage becomes more affordable because the RD loan interest rate subsidizes the total interest rate, which provides the borrower with a below market blended rate. In most cases, a local community development corporation (CDC) is a partner in the program,

providing support, such as training, information and technical assistance, and some subsidy financing to reduce buyer costs.

Eligibility

Income determines the applicant’s eligibility. At the time of loan approval, the income must not exceed area low-income levels; at closing, the income must not exceed the area moderate-income level. The loan must be applied to the applicant’s primary residence, and the borrower must have the legal capacity to enter into the agreement. The maximum repayment ratio for very low-income borrowers is 29/41 and 33/41 for low-income borrowers. An applicant must have an adequate credit history and meet citizenship requirements.

Standards

The property must be located in an eligible rural area. Eligible properties include single-family dwellings, condominiums, planned unit developments (PUDs), and redeveloped units. Manufactured housing must meet USDA RD guidelines and be newly constructed.

Terms Include

Lender

- Lender takes first position when providing at least 20 percent of the total financing.
- Loans carry a 30-year amortization (15-year balloons are permitted if amortized for 30 years).
- Rate must be fixed.
- Lender must finance between 20 percent and 50 percent of the purchase price.

RD

- RD takes second position.
- Loan carries a minimum 30-year amortization
- RD finances the remaining portion of the loan.

How Banks Can Participate?

Any organization that provides long term, amortized loans for housing, including private lenders, state and local governments, and nonprofit organizations can participate.

What Is the Multifamily Loan Program (Section 538)?

The 538 program was designed to fund the acquisition, construction, or rehabilitation of multifamily housing in rural areas to provide housing for low-income people. USDA RD provides up to a 90 percent guarantee to banks that finance affordable rural rental housing. The program can guarantee permanent financing, or a combination of permanent and construction financing, but not construction-only financing.

In 2011, the regulation was amended to add a single, continuous guarantee during the construction phase for construction advances and the permanent financing phase of the project (for loans that meet certain criteria). The details are available at [Federal Register](#), Vol. 76, No. 1, Monday, January 3, 2011. Contact [Tammy S. Daniels](#), RD, 202-720-0021.

Eligibility

Lender

Currently active and approved in multifamily housing guaranteed lending programs of Fannie Mae, Freddie Mac, Ginnie Mae, a local housing finance agency, or approved by, the Secretary of U.S. Department of Housing and Urban Development to make multifamily housing loans that are to be insured under the National Housing Act. (for further details, see 7 CFR 3565.102 - Lender eligibility.)

Standards

Under the program, projects of various sizes may be built. The minimum number of units for each project is five. Projects must be under single management.

Terms Include

- Lender may set term to between 25 and 40 years.
- Interest rate must be fixed.
- Nonprofit borrowers and Indian tribes may borrow up to 97 percent of the total development cost; others may borrow up to 90 percent.

- Rents may not exceed 30 percent of 115 percent of area median income.

How banks can participate

- Banks can review the USDA RD published Notice of Funds Available (NOFA) each year in the Federal Register; providing information on amount of funds available, submission requirements, and selection criteria.
- Lender submits a guarantee request to USDA that summarizes the proposed project, on behalf of the project developer.

Resources

For additional information on any of these programs, contact the [USDA RD Web site](#).

For additional information about single family Rural Development Guaranteed Housing Home Financing Options, visit the [Web site](#).

For information about the Rural Rental Housing (“538”) Loan Program, visit the [Web site](#).

For information about leveraged loans, see [Chapter 10: Leveraged Loans](#), Special PN (revised 04-01-08).

Disclaimer: The OCC encourages all parties interested in these programs to contact their state U.S. Department of Agriculture Rural Development administrator for detailed information.

Disclaimer

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