



### **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.

#### *The American Recovery and Reinvestment Act of 2009*

The American Recovery and Reinvestment Act (the Recovery Act) funding for the 502 guaranteed loan program will provide assistance to those impacted by the recession, preserve jobs and promote economic recovery. These funds can stimulate up to \$10.5 billion of lending guaranteed by the Federal Government. Recovery Act 502 funds were designed to stimulate private sector lending. For more information on this short term, additional funding, (funds will be available until September 30, 2010) visit:

<http://recovery.ny.gov/Handbook/InfrastructureHousing10.htm>

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

#### *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.

#### *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, or 15 percent of the U.S. median family income, whichever is greater.

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 history of meeting obligations as they become due.

### *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*

- Loans carry a 30-year fixed rate.
- The lender sets the promissory note interest rate, which cannot exceed Fannie Mae 90-day actual/actual rate plus 60 basis points.
- The lender must also determine repayment feasibility, using ratios of repayment (gross) income to PITI 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.

### *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.

### ***What Is the 502 Leveraged (Blended) Loan Program?***

The leveraged loan program combines a direct 502 loan from RD with a conventional first mortgage loan from a bank. 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 subsidizes the 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.

### *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*

#### *Lender*

- Lender takes first position.
- Loans carry a 30-year amortization (15-year balloons are permitted if amortized for 30 years).
- Rate must be fixed.

- Lender must finance at least a 20 percent of the purchase price.

### *RD*

- RD takes second position.
- Loan carries a minimum 33-year amortization
- The subsidized rate can be as low as 1 percent.
- RD finances the remaining portion of the loan.

### *How Banks Can Participate*

All Fannie Mae approved lenders are eligible to participate in the 502 Leveraged Loan Program.

### ***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.

### *Eligibility*

#### *Lender*

- Currently active in multifamily housing guaranteed lending programs of Fannie Mae, Freddie Mac, or FHA.

#### *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*

- Lender may set term to a maximum of 40 years.
- Interest rate must be fixed.
- Loan amounts are capped by HUD.

- Borrower must contribute operating capital that is equal to a minimum of 2 percent of the loan amount.
- 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 at [www.rurdev.usda.gov](http://www.rurdev.usda.gov).

For additional information about Rural Development Guaranteed Housing Home Financing Options visit [http://www.rurdev.usda.gov/rhs/sfh/GSFH\\_Information/lenders.htm#Why\\_lenders\\_may\\_want\\_to\\_hold\\_this\\_loan,\\_the\\_fantastic\\_guarantee:](http://www.rurdev.usda.gov/rhs/sfh/GSFH_Information/lenders.htm#Why_lenders_may_want_to_hold_this_loan,_the_fantastic_guarantee)

For information about Rural Development's implementation of the American Recovery and Reinvestment Act of 2009 visit <http://www.rurdev.usda.gov/arra/recovery-program.htm>

For information about the Rural Rental Housing ("538") Loan Program visit [http://www.rurdev.usda.gov/ca/pdf%20files%20and%20documents/538\\_Overview.pdf](http://www.rurdev.usda.gov/ca/pdf%20files%20and%20documents/538_Overview.pdf)