



United States Department of Agriculture
Rural Development - Texas

Direct Section 502 Single Family Housing Loan Program 21 Frequently Asked Questions

	Questions	Answers
1	What is the program purpose?	The purpose of the Direct Section 502 Single Family Housing Loan Program is to provide low and very-low-income people (who will live in rural areas) with an opportunity to own adequate but modest, decent, safe, and sanitary dwellings.
2	What are the advantages?	100 percent financing, fixed interest rate, subsidized payments
3	What is the lowest credit score allowed?	Credit scores are used to reduce the time necessary to conduct a credit analyses, but are not used to make adverse decisions.
4	What is acceptable credit?	Applicants must be able to demonstrate a willingness and ability to repay debts when due.
5	What is the maximum loan allowed?	There are loan limits depending on the county where the dwelling is located. Loan amount is also limited by market value and repayment ability.
6	What is the loan term?	Term is typically 33 years (38 for those with incomes below 60 percent of AMI and who cannot afford 33-year terms). 30 year term for new manufactured homes.
7	What is the interest rate?	Fixed interest rate based on the Government's cost of money. In most cases the interest rate is modified by payment assistance subsidy.
8	Can this program be used for investment or rental property?	No. To be eligible for a Section 502 loan, applicants must agree to personally occupy the dwelling on a permanent basis. Properties that include income-producing land or buildings designed to accommodate a business or income-producing enterprise will not be financed.
9	What is the loan to value?	100 percent of market value for existing homes (over 1 yr old) and new construction where acceptable construction inspections were made and an acceptable warranty is provided. 90 percent or less of new construction where acceptable construction inspections were <u>not</u> made.
10	What properties qualify?	Housing must be modest in size, design, and cost. Modest housing is property that is considered modest for the area, does not have market value in excess of the applicable area loan limit, and does not have certain prohibited features.
11	What are the eligibility requirements?	Applicants must be US citizens or permanent US residents, 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. Families must not own adequate housing, but be able to afford the mortgage payments, including taxes and insurance. Applicants must be unable to obtain credit elsewhere, yet have acceptable credit histories.
12	Can the loan be for construction & permanent?	USDA Rural Development can loan the construction loan which is converted to permanent after construction is completed.
13	In-ground swimming pools?	No. Homes with in-ground swimming pools will <u>not</u> be financed.
14	What about the location?	The project must be located in an eligible rural area. Dwellings should be located away from flood plains. http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do
15	What about the income limits?	Applicant's adjusted household income must meet Agency guidelines. http://www.rurdev.usda.gov/rhs/sfh/sfh_direct_loan_income_limits.htm
16	What are the qualifying maximum ratios?	Principal Interest Taxes and Insurance (PITI) Ratio 29% Very low-income applicants 33% Other applicants Total Debt Ratio 41% (all applicants)
17	Are loans made for Manufactured Housing?	Yes, manufactured housing must be new and permanently installed and meet the HUD Manufactured Housing Construction and Safety Standards and RD thermal and site standards. Manufactured homes must be sold and set-up by an Agency Approved Dealer
18	How large can the site be?	The site must not be large enough to be subdivided under local subdivision regulations. The site value may not exceed 30 percent of the as-improved market value of the property. The property must not include farm service buildings.
19	Is homebuyer education required?	Yes, Homebuyer education is required before loan closing for first time homebuyers
20	What about subsidy repayment?	There is a repayment agreement that borrowers sign agreeing to repay the subsidy.
21	How do I find out more about the application process	Contact the USDA Rural Development office that serves the county where you wish to purchase a home. http://offices.sc.egov.usda.gov/locator/app

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