

USDA Loans

by Nick Gromicko

USDA loans are housing loans that are backed through the Rural Housing Division of the U.S. Department of Agriculture (USDA).



Purpose

In the wake of the mortgage crisis in 2008 and 2009, lenders have become more cautious, so it's harder for home buyers, especially first-timers, to secure financing, especially those with low incomes or little money for a down payment. In response, the USDA has enacted changes that made millions of borrowers eligible for their rural mortgage programs, which have been around for decades. These loans are primarily used to help low-income individuals and families purchase homes in rural areas, given the challenges faced in finding an affordable mortgage loan or deriving high income in sparsely populated areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. If the borrower defaults on payments, loan funds are still guaranteed to the lender.

Eligibility of Applicants

The following factors affect eligibility for USDA loans:

- Loans are restricted to borrowers in rural areas, although many of the zip codes that qualify for USDA loans are in relatively typical suburbs of major cities. The 2002 Farm Bill defines a rural area as "any area other than (1) a city or town that has a population of greater than 50,000 inhabitants, and (2) the urbanized areas contiguous and adjacent to such a city or town."
- Applicants for loans may have an income of up to 115% of the median income for the area. If an income exceeds the maximum mark, you may be able to make certain adjustments that will help you qualify.
- Applicant families must currently be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. Copies of IRS tax filings from years prior may be required, especially if the prospective borrower is self-employed or has worked many jobs over the past few years.
- Applicants must have reasonable credit histories. Late payments will appear on the credit history, as will bankruptcies, repossessions and foreclosures.

- The amount loaned will also depend on the number of dependents claimed by the applicant.

Eligibility of Housing

Housing must be modest in size, design and cost. Also, houses constructed, purchased or rehabilitated must meet the building code adopted by the state and the Housing and Community Facilities Programs' (HCFP) thermal and site standards. New manufactured housing must be permanently installed and meet the manufactured housing construction and safety standards of the U.S. Department of Housing and Urban Development (HUD), as well as the HCFP's thermal and site standards. Existing manufactured housing may not qualify 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.

USDA Loans vs. Federal Housing Authority (FHA) Loans

While the USDA and FHA both insure loans made by private lenders, the policies and eligibility requirements for each are quite different. The following are the principle differences:

- Unlike loans offered by the FHA, USDA loans have no monthly mortgage insurance premium.
- The FHA requires that an applicant invest 3.5% of the purchase price as a down payment, although this fee may be donated by an employer, a blood relative, or a non-profit organization that is approved by HUD. The USDA does not require a down payment.
- Both the USDA and FHA have similar appraisal requirements. Both feature mortgage options for a fixed rate mortgage, and repayment terms of 15 years and 30 years.
- FHA loans may be as high as \$729,750, while USDA loans are limited to \$300,000.

In summary, USDA loans are a good option for many prospective home buyers and borrowers living in (or moving to) rural areas.