

USDA Home Loans

What is a USDA Home Loan?

USDA Home Loans provide up to 100% financing for a home purchase or refinance. These loans are guaranteed by the USDA and are serviced by direct lenders that meet federal guidelines.

There are many qualifying factors for a USDA home loan, things such as income limits and loan amount may limit eligibility.

USDA Income Limitations

Family income is a factor the USDA uses to determine if you qualify for the program. Family size is a factor and the USDA classifies income into the following categories: Very Low, Low and Moderate. Program availability varies by category as well.

Income Limit Calculations

To make the documentation and reporting of income easier and allow for more consistency across all 50 states, lenders have been provided with new forms to calculate borrower income. To ensure that a loan applicant's annual adjusted household income is within the allowable limit for eligibility, the lender must be able to estimate the projected household income over the next 12 months. There are several acceptable methods for calculating this projection: straight (an hourly or weekly wage stretched across a 12-month period); average (gross income from the last month multiplied by 12); year-to-date (projection based on earnings thus far over the current calendar year); and historical (based on income from last year's tax return). Lenders will use their discretion to determine the borrower's income stability and dependability to repay the loan based on projected annual income.

USDA Home Loan Guidelines

Your Guide to the USDA Home Loan

Given today's tough lending standards steady income and good credit may not be enough to qualify for a home loan. Lending institutions are looking for security and that is where the USDA Home loan program steps in. This program insures up to 90 percent of the loan amount. So if a homebuyer borrows \$100,000 from the lender and then defaults on the loan, the USDA will pay back up to \$90,000

A USDA guaranteed home loan can assist most individuals and families in rural areas become homeowners. The primary purpose of the USDA's Guaranteed Rural Housing Program is to help moderate and low income borrower qualify for a mortgage loan, even if they cannot afford to make a down payment.

USDA Home Loan Guidelines

1. Qualifying for a Guaranteed Rural Home loan
2. Have dependable and adequate family income. (Family income is defined as the combined gross income of the applicant, the co-applicant, and any other adult living in the household.)
3. Meet moderate income limits for your specific area.
4. Have a credit history which indicates a reasonable ability to pay obligations as they come due.
5. Be a citizen of United States, a qualified alien, or legally admitted into the U.S. as a permanent resident.

Before being approved for a Rural Housing loan some predetermined ratios are taken in to account to determine their repayment capabilities. Total debt must not exceed 41% of their gross income. The ratio is calculated by dividing the homeowner's monthly debt payments by their gross income. These debts include, but are not limited to, new mortgage payment (principle,

interest, taxes, and insurance), car payment, loan payment, credit card payments, child support, alimony and any other payment that will take longer than six months to fulfill.

Guaranteed Rural Housing Loans

USDA Loan Information

There are two ways in which the USDA helps borrowers achieve the American dream of home ownership.

1. USDA Guaranteed home loans – This is the most common loan offered, in this scenario a lending institution provides the homeowner with a loan. The USDA then insures the loan in case of default by the homeowner in turn reducing the risk of the lending institution.
2. USDA Funded Home Loans – In this scenario the USDA lends the money directly to the homeowner.

Both of these options are there to help people that would not normally qualify for a mortgage become homeowners. The guarantee provided by the USDA helps low and moderate income families with little money for a down payment achieves home ownership.

To be eligible, applicants must:

Have dependable income that is adequate for the repayment of the loan. This income should be verifiable and continuing for at least 24 months. For example social security benefits that will be discontinued in six months may not be included for qualifying. Income that is tax exempt may have the tax savings added to income figures.

Be a U.S. citizen, currently reside in the United States or a qualifying territory, qualified alien, or be legally admitted to the United States for permanent residence;

Must meet moderate income limits as determined by the USDA home loan program.

Credit history that shows responsible repayment of debt;

Must not have debt payments that exceed 41% of their gross income. The ratio is calculated by dividing the homeowner's monthly debt payments by their gross income. These debts include, but are not limited to, new mortgage payment (principle, interest, taxes, and insurance), car payment, loan payment, credit card payments, child support, alimony and any other payment that will take longer than six months to fulfill.

Homes That Qualify:

- A newly built or existing home
- Modular new and existing homes
- Home must provide safe, decent, and sanitary housing and be modest in cost
- The home must meet the thermal standards of the Rural Housing and Community Development Service
- Existing homes must be in good repair and structurally sound
- There are no size or design restrictions on the home to be financed
- USDA home loans may not be used on property for income-producing purposes
- The home must not be located in flood or mudslide hazard areas
- Water and sewage system must meet the requirements of the State Department of Health

Highlights of the USDA Guaranteed Rural Housing Loan Program

- Loans may go up to 102% (With Guarantee fee included)
- No downpayment is required
- Mortgages are 30-year fixed rate at market interest rates
- Sellers may contribute to the buyer's closing costs
- Home buyers make application with participating lenders
- Buyers must personally occupy the dwelling following the purchase

Section 502 Direct housing loans may be used to refinance existing USDA loans or for a home purchase. When purchasing a home with a USDA loan there is an upfront fee of 2% charged to

the mortgage lender. A Refinance loan carries .5% upfront fee. This fee usually passed on to the homeowner and included in the closing costs. USDA Guaranteed Home Loans are subject to investor guidelines provided by the servicer.

Loan Guarantee Program (Section 502)

The Guaranteed Loan Program, managed by the Housing and Community Facilities Programs (HCFP), provides a loan guarantee, to a mortgage lender, on loans that meet USDA loan guidelines. An individual looking to get approved for a USDA loan would work with a lender that is approved to offer these loans and would make his or her payments to that lender after closing.

Loan guarantees are offered on a variety of government sponsored mortgage programs and enable mortgage lenders to provide USDA Home loans to borrowers that would not traditionally be able to get approved.

One of the biggest hurdles to overcome for new homeowners is coming up with the initial down payment. With a USDA home loan a borrower can finance up to 102% of the homes value which includes the guarantee fee.

USDA Home Loan Refinancing

The USDA home Loan Program allows responsible homeowners who are also Section 502 borrowers to refinance into a guaranteed Section 502 loan. Both streamlined and non-streamlined refinance options are available. A non-streamlined refinance must include a property appraisal. The existing loan's principal and interest, as well as closing costs and lender fees, may be included in the new loan. A streamlined USDA Home Loan does not require an appraisal, but does require a home inspection to ensure the property meets all HUD requirements. This type of refinance must also be manually underwritten. The existing loan's principal balance is refinanced, and any accrued interest, closing costs and lender fees cannot be included. Further, this refinance option is only available for Section 502 Guaranteed loans, not direct loans.

2014 is bringing some much needed updates to the USDA home loan program.

Here are few highlights of the changes to take hold in September:

- Lenders will now be able to take in to consideration energy efficiency improvements of a home.
- USDA loans have always been a 30 year fixed rate mortgage, the need updates will allow for changes to the length of the mortgage to better suit the home buyer's needs.
- Community banks and credit unions will also be allowed to participate in the program now increasing overall availability.

Source: <http://usdaloanapproval.com/>
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