

Direct Rural Housing (502) Loans

I. GENERAL

The Rural Housing Service (RHS) provides Section 502 Rural Housing loans to eligible persons to own adequate but modest, decent, safe and sanitary dwellings. This fact sheet provides basic eligibility requirements for assistance to purchase, build or repair a single family home or to purchase a condominium in an eligible rural area. It is our desire to serve you effectively and efficiently.

II. APPLICANT ELIGIBILITY REQUIREMENTS

All applicants must have repayment ability for the loan amount requested real estate taxes, insurance and other monthly debts. The total monthly payment for **Principal**, **Interest**, real estate **Taxes**, and assessments, and property **Insurance (PITI)** must not exceed either 29% or 33% respectively, of a Very Low or Low-income applicant's gross monthly income. An applicant's total monthly payment for **PITI** plus all other monthly debt payments (**TOTAL DEBT or TD**) must not exceed 41% of the applicant's repayment monthly income. In addition to the **PITI** and **TD** percentages, an applicant must meet the following to be considered eligible for assistance. All applications are reviewed for the Leverage Loan program and additional information is provided upon selection.

- **You must have a good credit history; and a credit score of 640 allows streamlined processing of the credit report (NEW).**
- **Adjusted household income must be less than the low-income limit for the respective household size and area in which the prospective property to be financed is located.**
- **USE OF ASSETS:** If you have assets in excess of established limits, you must use those assets for a down payment and costs associated with the transaction. Applicants must contribute non-retirement assets in excess of \$15,000 (\$20,000 for Elderly families (Revised)). Retirement assets in excess of the adjusted median income limits for your family size must also be used in the transaction.

III. REPAYMENT ABILITY

The loan amount for which a household qualifies will depend primarily on the household's repayment ability as determined by the **PITI** and **TD** ratios discussed in paragraph II. Your mortgage payment will be the **greater** of the payment based on a subsidized 1% interest rate, **or** 24% of your adjusted household income (Revised). The loan cannot exceed the appraised value of the property by more than the cost of the Agency appraisal, initial escrow tax and insurance deposit and tax monitoring fee. The maximum loan, appraised value or purchase price cannot exceed the loan limit for the respective area as shown on the Maximum Mortgage Limit Page.

IV. SITE REQUIREMENTS

The property must be located in an eligible rural area. The dwelling site, except for condominiums must be large enough to accommodate adequate water (well) supply and/or sewerage disposal system and a yard. The site cannot be of a size that can be subdivided into another adequate site under existing zoning requirements. The property must have a direct access from a hard surface or all weather road, or driveway that can serve no more than two sites; or is town maintained; or has a home owners association that has demonstrated its ability or can clearly demonstrate its ability to maintain the street, and acceptable to RHS.

V. DWELLING REQUIREMENTS

The size and type of dwelling you will be able to purchase will depend primarily on your repayment ability. The dwelling must be modest and will provide decent, safe and sanitary housing. In-ground swimming pools and income producing land or buildings designed to accommodate a business or income-producing enterprise are specifically prohibited. Homebased operations that do not require specific features such as child care, product sales or craft production are not restricted. Specific guidelines are available upon request for condominiums, community land trusts and planned unit developments.

Loans on new homes less than one year old not inspected by RHS or covered by an approved 10-year warranty plan will be limited to 90% of the value of the dwelling. If construction that meets the Agency standards can be documented, the LTV will be 100%.

VI. HOW TO FILE AN APPLICATION

Mail in or hand deliver during business hours (no faxes please) to the [office](#) that covers the area in which the property you plan to buy, build or repair is located:

- A fully completed *Form RD 410-4, Uniform Residential Loan Application*, signed on pages 5 & 8 and a signed *Form RD 3550-1, Authorization to Release Information*, for each adult household member. Additional information will be required to complete the processing of your loan application. The following information and other information may be requested, as needed by the local Rural Development Area Office:
- Authorization To Release Information To Other Lender(s) signed by each applicant/co-applicant
- Credit report fees of: \$32 for single married applicants
- Copy of latest signed Federal 1040 tax return, with W-2s; and 2-years if self-employed with Schedule Cs
- Copy of the last 2-paystubs for employed individual; 2-banking statements for each checking and savings account; and vested retirement statement
- Third party documentation of other incomes as: SSA, VA, AFDC, Food Stamps, Section 8 Voucher; Pension; Child Support order & payment history; Full-time student status for dependents age 18 or older, etc.
- NEW – the Agency requires that applicants who are first-time homebuyers to complete homeowner education training prior to their loan closing.