



Contact your local Rural Development office for more information and answers to your questions!



Committed to the future of rural communities.

# Real Estate Professionals Guide to Rural Development Financing

Revised 2006



Committed to the future of rural communities.

### Equal Opportunity Lender

The USDA prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited types apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at 202-720-2600 (voice and TDD).

To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C., 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an Equal Opportunity provider, employer, and lender.



Rural Development finances dreams!

[www.rurdev.usda.gov/il/grh.htm](http://www.rurdev.usda.gov/il/grh.htm)

**At USDA Rural Development  
we don't work for the government—  
we work for the people!**



## We dream big and work hard!

### Quick Facts

- #1: Rural Development in Illinois is the largest 100 percent guaranteed lender in the nation!
- #2: Annually Illinois assists about 3,000 individuals and families achieve the dream of homeownership with guaranteed financing.
- #3: Rural Development invests over \$200 million in guaranteed financing in Illinois each year.
- #4: Rural Development finances hundreds of newly constructed homes in Illinois each year through the 100% guaranteed loan program.
- #5: Rural Development honors about 60 participating Illinois lenders every year for originating \$1,000,000 or more in 100% guaranteed financing.
- #6: Rural Development in Illinois always surpasses the yearly minority lending goal set by President Bush to ensure a 10 percent increase in minority homeownership this decade.



## Rural Development + You = A Rewarding Partnership

At Rural Development we invest in people, families, businesses, and communities. We are committed to supporting rural communities.

Rural Development cannot do this alone. We need dedicated lenders, real estate professionals, builders, contractors, appraisers, and other professionals to help us achieve our mission.

Helping more people achieve the dream of homeownership — the ultimate American dream — is a worthwhile and rewarding experience. We want you to join us by offering the best financing programs to the rural citizens of Illinois.

**Together we can serve more people!  
Together we can make a difference!**

## Ideas to Boost Your Business!

Who can you partner with to make your business stronger?

**Insurance agents:** Renters buy insurance. Partner up to get a list of prospects! What client does the agent have who only buys auto insurance? Most people buy all their insurance from one agent to cash in on discounts for multiple policies. Their client may also be a renter looking for a home.

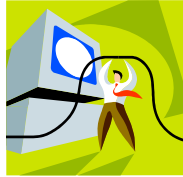
**Certified Financial Planners** work with all types of borrowers. When their clients decide to move from apartment to home, to a larger home, to investment properties, where will they refer that client? You could also send clients in your database their way.

**Accountants** are busy working for all types clients who are renters and homebuyers. Having access to their database is a fantastic way to prospect. Accountants may, in turn, offer all of your past clients a discount on filing a return with them to increase their business.

**Attorneys** represent buyers and sellers, as well as work with divorces and estates. These are all people in need of real estate and lending assistance.

These are some of the business professionals with whom it would be a good idea to form alliances. **Be prepared to GIVE prospects before you RECEIVE!**

## What resources are available on the web?



Log onto [www.rurdev.usda.gov/il/grh.htm](http://www.rurdev.usda.gov/il/grh.htm)  
Save the link as a favorite for future reference!

### To determine property eligibility, log onto the website and...

1. Click on "Income/Property Eligibility."
2. On the left menu under "Property Eligibility," click on "Single Family Housing."
3. Click "Accept" to move forward to the property site.
4. **IF YOU HAVE AN ADDRESS**, type in the complete address including zip code.
5. Click "Get Map." The address will be mapped to its exact location AND indicate whether or not it is in an eligible area.
6. **IF YOU HAVE NO ADDRESS**, click on Illinois in the US Map.
7. If the "quick list" to the right does NOT list the county in which you are interested, all property in the county is eligible. If the county is listed, click on the name to see the ineligible area(s) within the county.

**ILLINOIS HAS 102 COUNTIES**

**ONLY Lake, DuPage, and Cook counties are NOT eligible.**

### To identify income limits, log onto the website and...

1. Click on "Income/Property Eligibility."
2. On the left menu under "Income Limits," click on "Guaranteed."
3. Click on "Illinois."
4. Print off the income limits for future reference.

The list will show you the **ADJUSTED** Annual Income Limits.

For the **direct** loan program, use the "**Low Income**" line.

For the **guaranteed** loan program, use the "**Mod. Inc-Guar. Loan**" line.

### ADJUSTED INCOME EXAMPLE:

Income adjustments can be made for dependents, child care, and disability expenses. A family of four in Peoria County may have a gross annual income of \$78,000, but with deductions for two children, daycare, and other possible monthly expenses they could easily have an **ADJUSTED** income at or below the 2006 limit of \$71,750. Income limits are revised each year. Your lending partner can help accurately determine adjusted income.

**CALL YOUR LOCAL RURAL DEVELOPMENT OFFICE  
FOR ASSISTANCE!  
WE'RE HERE TO HELP!**

## What types of home financing does Rural Development offer?

Rural Development offers two separate homeownership programs. This guide is designed to give you a working knowledge of those programs and makes it easier for you to assist your clients.

### Guaranteed Financing

- 100% financing
- Clients work with a participating traditional mortgage lender of their choice.
- Normal timeframe for purchase contracts and closings
- No monthly mortgage insurance
- Competitive fixed 30 year interest rates
- Generous income limits
- No maximum purchase price limit
- **NO RECAPTURE!** Recapture is never a factor with guaranteed financing.
- Homes must meet Rural Development minimum property standards per HUD Handbook 4150.2. Practically conventional!
- Funding is always available.

### Direct Loan Financing

- 100% financing
- Client works with local Rural Development office for the loan.
- Closing timeframe **MAY** be longer (45-60 days).
- Maximum purchase price limits vary by county.
- Very low to low income limits apply.
- Competitive fixed rates—33-38 year loan terms
- **SOME CLIENTS MAY QUALIFY FOR SUBSIDIZED PAYMENTS.** When the government is helping them make their monthly housing payments, they could be subject to recapture upon selling the home.
- Homes are inspected and repairs may be necessary to place the home in a "like new" condition. Repair costs may be rolled into the loan and completed after closing.

**Keep reading to find out WHY the programs are structured this way so that you can help more clients buy the home they want!**



## Managing the Guaranteed Loan Transaction

**Timeframe: 3 to 6 weeks**  
**Normal purchase contract time**

1. **Clients meet with a participating mortgage lender of their choice to determine if they qualify.**
2. **Clients go house shopping and enter into a purchase contract.**
3. **Clients sign loan documents with the lender.**
4. **Lender orders the appraisal.**
5. **Lender contacts the agent, seller, and client IF there are any necessary repairs or predications. Repairs can be completed prior to closing OR funds are escrowed at 150% of the estimated cost for repairs to be completed after closing.**
6. **Lender submits the underwritten loan package to the local Rural Development office for guarantee review. Rural Development issues a conditional commitment to the lender in one to two working days.**
7. **Lender closes the loan and submits the guarantee fee to Rural Development.**
8. **Rural Development issues the guarantee to the lender.**
9. **Lender services the loan.**

**That's all!**

**Guaranteed financing is fast and flexible!**  
**Guaranteed financing is NOT just for first time homebuyers!**

## What types of homes can I build and finance with Rural Development?



### Site Built Homes

- Built from the ground up and built entirely at the home site.
- Conforms to all state, local, or regional codes where the home is located.
- Often called a "stick-built" home.
- A well built, cared for site-built home generally increases in value over time.

### Modular Homes

- Built in modules at a factory.
- Built to conform to all state, local, or regional building codes at their destinations.
- Modules are transported to the home site on truck beds, then joined together by local contractors.
- Local building inspectors check to make sure the structure meets requirements and that finish work is done properly.
- Modular homes are *sometimes* less expensive per square foot than site built homes.
- A well-built modular home should have the same longevity as its site-built counterpart, increasing in value over time.



### Manufactured Homes

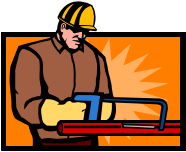
- Formerly referred to as mobile homes or trailers.
- Built in a factory.
- Conform to a federal building code, called the HUD code, rather than to building codes at their destinations.
- Homes are built on non-removable steel chassis.
- Sections are transported to the home site on their own wheels.
- Multi-part units are joined at their destinations.
- Segments are not always placed on a permanent foundation, but they must be on a permanent foundation to qualify for Rural Development financing.
- Building inspectors check the work done locally (electric hook-ups, etc.), but they are not required to approve the structure.
- Manufactured housing is generally less expensive than site-built and modular homes.
- Manufactured homes often decrease in value over time.

**Only NEW manufactured homes built by approved dealer-contractors qualify for Rural Development financing. For a list of approved dealers, LOG ON: [www.rurdev.usda.gov/il/grh.htm](http://www.rurdev.usda.gov/il/grh.htm)**

### Mobile Homes

These are not attached to a permanent foundation and are NOT eligible for any financing program through Rural Development.





## What about new construction?

**GUARANTEED PROGRAM:** A guaranteed loan does not provide payouts and construction draws. The guarantee applies when the home is completed and ready to close. The lender may submit a loan file to receive a **conditional commitment** for clients who wish to build and want guaranteed financing. The builder will either carry the construction loan, or the lender will oversee the loan during construction. Once construction is complete and the loan is closed, the loan is submitted to Rural Development to receive the guarantee.

**Does Rural Development ever withdraw its conditional commitment and leave the lender high and dry?**

A conditional commitment from Rural Development means that a final loan note guarantee will always be issued once all the conditions are met.

**Can borrowers lose their guarantees?**

Yes, under three conditions: 1) if the builder, lender or client backs out of the deal; 2) if the client lied on the loan application; or 3) if circumstances change affecting the clients eligibility or ability to repay the loan.

**DIRECT PROGRAM:** The Direct Program is very different from the Guaranteed Program. When the client is working directly with the Rural Development office, Rural Development will oversee the construction draws. Typically a 60% payout is made on work in place, and a 40% payout is made when construction is completed and a final inspection has been reviewed.

## What documents are required for a new construction loan?

Spec Home	"Pre-Sold" Construction Home
Rural Development plan certification <b>OR</b> building permit	Same as "spec" home PLUS: Plot or site plan
Footing, framing and final inspections	Construction or purchase contract
Occupancy permit <b>OR</b> final inspection	AD 1048 Debarment for builder
1 Year Builder Warranty <b>OR</b> 10 Year Insured Warranty (if builder wishes to sign the Plan Certification)	400 Series 400-1: Equal Opportunity 400-3: Notice to Applicants 400-6: Compliance Statement

## Guaranteed Financing: Best 100% Loan Option on the Market!



**NO MATTER HOW YOU DO IT—  
SOLD IS A FANTASTIC FEELING!**

**The Guaranteed Program is fast and easy. Here are a few more highlights that make it the BEST option!**

### #1: TRULY A 100% PRODUCT

Closing costs, major repairs, etc. may be rolled into the loan up to 102% of the appraised value.

### #2: NO MONTHLY MORTGAGE INSURANCE

Monthly mortgage insurance is very costly to the client and is not tax deductible. The higher the monthly mortgage insurance premium the lower priced home your client will qualify to buy. Rural Development offers more affordable terms enabling clients to buy a better home for their money!

### #3: FLEXIBLE CREDIT/QUALIFYING RATIOS

No minimum credit score, lenders determine client eligibility. Non-traditional credit histories are accepted. Expanded qualifying ratios of 29/41 with ratio waivers available upon request.

**RURAL DEVELOPMENT HELPS GET DEALS DONE!**

### #4: FLEXIBLE APPRAISALS

New guidance on HUD Handbook 4150.2 allows appraisers deemed qualified by the lender to determine if minimum property standards are met. Rural Development will determine if any reported deficiencies require repair.

## Understanding the Direct Loan Transaction



**Timeframe: 5-8 weeks**

1. Clients meet with Rural Development to apply for financing.
2. Rural Development orders a credit report, verification of employment and verification of rent.
3. Rural Development interviews the clients and issues a Certificate of Eligibility for a specific pre-qualified amount. The certificate is valid for 45 days and may be extended up to 60 additional days upon request AND AVAILABILITY OF FUNDS.
4. Clients may enter into a sales contract on a home (PLEASE ALLOW AMPLE TIME TO CLOSE—WRITE THE CONTRACT FOR 45-60 DAYS MINIMUM.) If you are concerned about the availability of funds prior to signing a contract, call your local Rural Development office for fund verification.
5. Rural Development performs a walk-through of the home.
6. Clients choose an Illinois licensed home inspector to do the inspection. Rural Development uses the inspection to ensure the house meets structural, mechanical and thermal standards.
7. Rural Development reviews the home inspection and determines what repairs may be necessary.
8. Clients get estimates from contractors of their choice to make the necessary repairs.
9. Rural Development orders the appraisal and submits the repair specifications to the appraiser who determines a “subject to repairs” value.
10. Repairs are made to bring the home into “like new” condition or funds for repairs may be held in escrow. REPAIRS DO NOT HAVE TO BE COMPLETED PRIOR TO CLOSING.
11. Closing is held at a title company of the buyer’s or seller’s choice.

**Direct housing loans are very popular.  
Borrowers should call early in the fiscal year  
because funding is limited.**

## Q: Why are the guaranteed and direct loans so different?



**A: The programs address the clients’ specific needs.**

## Direct vs. Guaranteed

Because direct loan clients have lower incomes and limited assets, Rural Development wants the home to be free of any “surprises” that can drain a bank account quickly.

**EXAMPLE: If you came home tonight and your furnace did not work, you would consider buying a new furnace a major repair. Rural Development is more “picky” about the condition of direct loan homes because a major repair could be financially paralyzing for our direct clients.**

Guaranteed clients have moderate incomes, and there is no limit to the assets they may hold. If a major repair occurs, they are more likely to be in a position to afford the cost of repairs. Minimum property standards for guaranteed loans are not as strict as standards for direct loans.

Direct clients may qualify to have their payments subsidized, which means their payments will be lower because the government is helping them make their house payment. Therefore, when they sell the home, they may need to pay a recapture. This is only fair. Why should the clients take money at the closing that they did not contribute?

Guaranteed clients get their loans from participating mortgage lenders. **NO RECAPTURE IS EVER DUE!** Guaranteed clients must make full payments to the lender of their choice.

**Do you have clients who cannot qualify for financing with a lender? Maybe they could qualify for a direct housing loan!**