

Housing Assistance Council

Housing Assistance Council

Building Rural Communities since 1971

For Rural Housing Agencies

Web Training – Sponsored By HAC's RCDI 7 Program

Brief Overview

RD Section 502 Direct Loan Program

March 4, 2011

*Karl Ory, HAC Western Regional Office Director
Daniel Stern, HAC Training Coordinator / Moderator
Anselmo Telles, Housing Specialist, HAC SW Office*



Housing Assistance Council

Building Rural Communities since 1971

- Founded in 1971, HAC is a national nonprofit corporation headquartered in Washington, D.C;
- HAC helps local organizations build affordable homes in rural America by providing:
 - Below-Market Financing;
 - Training and Technical Assistance;
 - Research and Information Services.
- HAC's programs focus on;
 - Local Solutions;
 - Empowerment of the poor;
 - Reduced dependency and self-help strategies.
- HAC's Executive Director is Mr. Moises Loza.

Housing Assistance Council



HAC's Mission

"To improve housing conditions for the **rural** poor, with an emphasis on the poorest of the poor in the most rural places."



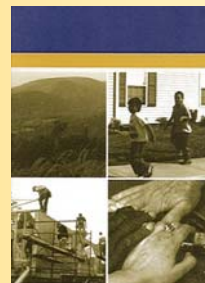
Photo courtesy of Federation of Appalachian Housing Enterprises

© 2010, Housing Assistance Council



Services Offered

- Technical Assistance
- Training
- Loan Funds
- Information & Publications




Housing
Assistance
Council



BUILDING RURAL COMMUNITIES

© 2010, Housing Assistance Council

Housing Assistance Council



HAC News

HAC News Information on rural low-income housing issues October 14, 2009
Vol. 38, No. 21

USDA appropriations set for FY 2010. Both the House and Senate have passed a final compromise version of H.R. 2997, including funding for rural housing programs in the fiscal year that began October 1, and President Obama is expected to sign the bill soon. The measure continues most rural housing programs at the levels provided in 2009 appropriations legislation (without taking the American Recovery and Reinvestment Act into account). The very prominent exception is a doubling of the Section 502 guaranteed loan program from \$6.2 billion in 2009 to \$12 billion in 2010. Section 514 and 516 farm labor housing. Section 523 will help housing, Section 521 rental assistance, and the multifamily housing preservation program also receive increases. The table below has details. Visit <http://thomas.loc.gov/home/ appropriations.asp> for the bill text and committee reports.

Program (dollars in millions)	FY 2010			
	FY 2009 Approp.	Admin. Budget	House H.R. 2997	Senate Conf. Rpt. S. 1406 H.R. 2997
USDA Rural Development				
502 Single Fam. Direct	\$1,211.3	\$1,121	\$1,121	\$1,227
502 Single Family Guar.	5,223.8	6,200	6,200	12,000
504 Very Low-Inc. Repair	34.4	34.4	34.4	34.4
514 Farm Labor Hsg.	20	20	20.5	27.5
516 Rural Hsg. Direct	69.3	69.3	69.3	69.3
520 Rural Hsg. Guar.	129.1	129.1	129.1	129.1
521 Rental Assn. (incl. LIHTC)	3.8	1.8	1.8	1.8
Programs & Payments				
508 Very Low-Inc. Repair	29.7	31.6	31.6	31.6
510 Farm Labor Hsg.	9.1	9	11.3	9.9
512 Low-Inc. Hsg.	10.7	10.7	10.7	10.7
513 Hsg. Direct, Admin.	4.9	4.4	4.4	4.4
521 Rental Assistance (1-yr contract)	961.5	1,091	960	960
521 Rental Assistance (2-yr contract)	191	191	191	191
521 Rental Assistance (3-yr contract)	12.89	12.89	12.89	12.89
521 Rental Assistance (4-yr contract)	14.41	14.41	14.41	14.41
521 Rental Assistance (5-yr contract)	1.5	1.5	1.5	1.5
521 Rental Assistance (6-yr contract)	20	19.8	20	19.9
521 Rental Assistance (7-yr contract)	6.3	6.3	6.3	6.3

HUD appropriations bill awaits conference committee action. HAC will post updates at <http://www.housing.org> as available.

House and Senate bills would fund National Housing Trust Fund. H.R. 2766, introduced by Rep. Barney Frank (D-MA), would transfer \$1 billion from the bank bailout Troubled Asset Relief Program to the NHTF. S. 1721, sponsored by Sen. Jack Reed (D-RI), would rely on funds generated from certain TARP transactions. A National Low Income Housing Coalition comparison of the bill's contents is posted at <http://www.nlihc.org/doc/Comparisons%20of%20the%20NHTF%20Bills.pdf>. Both bills are available at <http://thomas.loc.gov> (search by bill number).

Family Unification Program funds offered. Applications are due December 5. Visit <http://www.hud.gov/offices/adm/grants/fundaward.cfm>. Contact Stephanie Y. McQueen, Stephanie.Y.McQueen@hud.gov, 202-706-9477, or the NCFIA Information Center, 1-800-810-8929.


Comments requested on lead dust and paint. Comments are due October 21 on issues raised in a petition to EPA from the National Center for Healthy Housing, Alliance for Healthy Homes, and others. See Federal Register, 10/6/09 or <http://www.regulations.gov>. Contact Colby Linn, EPA, 202-554-1404, TSCA.Hydro@epa.gov.

Revisions proposed for Enterprise Income Verification system. This system will check the employment and income of tenants with HUD assistance. Comments are due November 18. See Federal Register, 10/15/09 or <http://www.regulations.gov>. Contact Nicole Fallon, HUD, 202-402-4267.

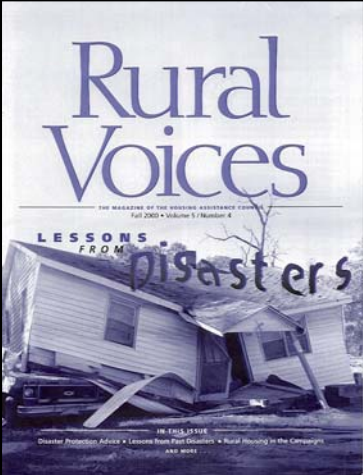
HUD to change tax credit equity accrue requirements. HUD seeks comments by December 8 on rule changes intended to reduce burdens on use of Low Income Housing Tax Credits, including removing the requirement to accrue equity to cover future costs. See Federal Register, 10/9/09 or <http://www.regulations.gov>. Contact the Appalachia, HUD, 202-402-2662.

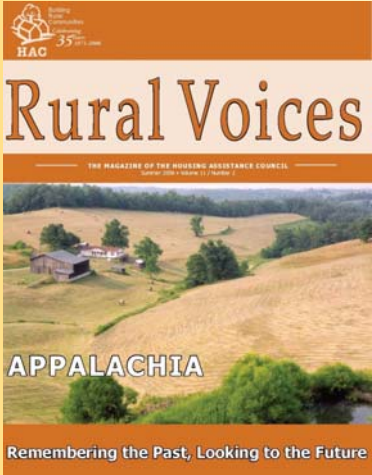
Deadline extended for Section 8 income limits "hold harmless" provision. (See HAC News, 9/16/09.) Comments are now due November 6. See Federal Register, 10/7/09 or <http://www.regulations.gov>. Contact Marie L. Libe, HUD, 202-708-0599.

© 2010, Housing Assistance Council




Rural Voices





© 2010, Housing Assistance Council


Housing Assistance Council



Loan Uses & Structure

<p><u>Uses</u></p> <ul style="list-style-type: none"> • predevelopment • land acquisition • site development • construction • preservation • gap/interim 	<p><u>Structure</u></p> <ul style="list-style-type: none"> • loans • guarantees • compensating deposits • letters of credit • lines of credit
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

© 2010, Housing Assistance Council



HAC Loan Fund at a Glance

Loan Product	Term	Interest Rate		Service Fee
		Non-Profit	For Profit	
Pre-Development	Up to 5 years	5%	8%	1%
Site Acquisition	Up to 5 years	5%	8%	1%
Site Development	Up to 5 years	5%	8%	1%
Construction	Varies \$750,000 Max	5%	8%	1%
Water/Waste Water	Up to 5 years	5%	8%	1%
Preservation	Up to 30 Years	5%	8%	1%
Self-Help Housing (SHOP)	2-3 years	0%	N/A	1%
Land Banking	Up to 10 years \$750,000 Max	5%	8%	1%
Letter of Credit	Up to 5 years \$250,000 Max	5%	8%	1%
Line of Credit	Up to 5 years \$250,000 Max	5%	8%	1%

© 2010, Housing Assistance Council

Housing Assistance Council



Section 502 Direct Loan Program - at a Glance

The Section 502 Program was first authorized in the Housing Act of 1949 and for over 60 years has provided:

- Low- and very low-income people the opportunity to own adequate, modest, decent, safe and sanitary homes in rural areas;
- Critical mortgage credit to rural residents where there has been a serious lack of available credit, or when available, at rates and terms low and very-low income rural residents could afford.

© 2010, Housing Assistance Council



Section 502 Direct Loan Program - at a Glance

- Rural Development provides direct, as-well-as guaranteed loans, in rural areas.
- Rural areas include open country and places with a population of 10,000 or less and, under certain conditions, towns and cities between 10,000 and 25,000 population;
- Low-income is defined as between 50 and 80 percent of area median income (AMI); Very low-income is below 50 percent AMI.

© 2009, Housing Assistance Council

Housing Assistance Council



Section 502 Direct Loan Program - at a Glance

Loans may be used to:

- Purchase existing housing;
- Purchase, relocate and/or repair existing housing;
- Purchase a building site and construct a dwelling or;
- Purchase new housing, including manufactured housing;
- Refinance debts when necessary.

Note: At least 40 percent of funds must be used to assist families with incomes less than 50 percent of AMI.

© 2010, Housing Assistance Council



Rural Development Service Area and Eligibility Information

- RD Section 502 Direct Loan Program is a rural program. Service area, income and property eligibility can be determined by contacting the local RD Service Center or online at -
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
 - Web link can be used to learn more about a USDA home loan program; Determine if a property is located in an eligible rural area; Determine income eligibility of an applicant/household; or to find out how to apply for a Rural Development Loan.

© 2010, Housing Assistance Council

Housing Assistance Council



TYPES OF 502 LOANS

- **INITIAL** -- No existing Agency loan, eligible buyer;
- **ASSUMED** - Eligible applicant: same rates and terms, or new rates and terms;
- **SUBSEQUENT** - Eligible applicant, loan can be part of original purchase in combination with an assumption, if shortfall for construction funds, or during term of Agency loan to help existing loan pay for repairs or improvements to the property;
- **NON-PROGRAM** - Applicants and/or properties not eligible on program terms.

© 2010, Housing Assistance Council



Checking funding availability

- Fiscal year starts October 1st of each year and ends September 30th of the next year.
- Funding varies from State to State.
- Many States hold funds in the State Office and the Area Offices must request funds.
- Maintain a close relationship with your Area Office to determine when funds are available and the kind of funds that are available.

© 2010, Housing Assistance Council

Housing Assistance Council



POOLING

- Non-obligated funds for redistribution by National Office.
- Usually occurs in mid-July.
- Applications may be selected for processing based on date completed and on processing priority, in the event there is a waiting list at the local office.

© 2010, Housing Assistance Council



Regulations

- Regulations for all USDA/RD single-family housing programs, including Section 502 direct loans, are compiled in 7 CFR Part 3550;
- Two handbooks provide details and instructions about the various aspects of the 502 program.
 - HB-1-3550 covers tasks undertaken by RD field offices;
 - HB-2-3550 explains the work of the agency's centralized servicing center.

© 2010, Housing Assistance Council

Housing Assistance Council



Regulations

- Other Instructions governing the 502 loan program include:
 - 1924-C (Site and Building Design);
 - 1924-A (Construction and Repair);
 - 1940-I (Truth in Lending) and;
 - 1901-E (Civil Rights).
- www.rurdev.usda.gov/regs/ (For Handbooks, Instructions, AN's, PN's, UL's, and Forms)

© 2010, Housing Assistance Council



Standards

Houses constructed, purchased, or rehabilitated with Section 502 loans must meet:

- Voluntary national model building code adopted by the state;
- CABO Model Energy Code (MEC), and RD site Standards;
- Manufactured housing must be permanently installed and meet HUD Manufactured Housing Construction and Safety Standards, MEC, and RD site standards.

© 2010, Housing Assistance Council

Housing Assistance Council



© 2010, Housing Assistance Council

Properties

- Eligible Properties - Must be modest in size, design, and cost. The value of a dwelling may not exceed the Area Loan Limits.
 - Area Loan Limits are reviewed annually.
<http://www.rurdev.usda.gov/rhs/sfh/RHS%20Area%20Loan%20Limits.htm>
- Lot Size - A modest and adequate lot should not exceed 30 % of the appraised value; and cannot be subdivided to make another house.
- Prohibited Features Include - In-ground swimming pools and income producing properties.



© 2010, Housing Assistance Council

Rates, Terms and Interest Subsidy

- The standard term of a Section 502 loan is 33 years. *(Applicants unable to afford a loan at 33 year term and have incomes below 60 percent of AMI are eligible for an extended term of 38 years.)*
- The borrower's payment for PITI is the higher of:
 - 24 percent of borrower's adjusted annual income; less any eligible leveraged loan payment; less taxes & insurance; or
 - Principal payment calculated at 1 percent on the RD loan, plus any eligible leveraged loan payment, plus taxes & insurance.
- An eligible leveraged loan is a loan with payments amortized over a period not less than 30 years and an interest rate not exceeding 3 percent.

Housing Assistance Council



Rates, Terms and Interest Subsidy

- Payment will never be more than the payment calculated at RD Market Rate at time the loan was made. (*Fixed Promissory Note Rate*)
- Private Mortgage Insurance (PMI) is not required.

© 2010, Housing Assistance Council



Down Payment Requirements and Asset Limitations

- A down payment is not required. Loans may be made for up to 100 percent of the market (appraised) value. If the sales price of the property is equal to or less than the appraised value, no down payment is needed.
- Asset Limitations - Cash value above limits must be used toward down payment. Non-retirement Assets vary for Non-elderly (> \$15,000) and Elderly (> \$20,000).

© 2010, Housing Assistance Council

Housing Assistance Council



Income Eligibility Limits

- <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=pageLoad&requestInfo=DirectIncomeLimits&NavKey=incomelimit@11>

© 2010, Housing Assistance Council



Borrower Eligibility Requirements

- Have an adjusted income at or below applicable low-income limit at loan approval;
- Be unable to obtain sufficient credit from another source;
- Agree to personally occupy the dwelling;

© 2010, Housing Assistance Council

Housing Assistance Council



© 2010, Housing Assistance Council

Borrower Eligibility Requirements

- Meet citizenship or eligible noncitizen requirements;
- Have the legal capacity to incur a loan obligation;
- Not be suspended or debarred from participation in Federal programs;
- Demonstrate both the willingness and ability to repay the loan.



© 2010, Housing Assistance Council

Security and Ownership Position

- RD must be able to foreclose to settle debt. Therefore, RD will seek the best mortgage obtainable. At closing applicant must have an ownership position acceptable to RD which can include: **(HB-1-3550, Section 4)**
 - Fee Simple Ownership – *Title evidenced by a deed with full interest in property to borrower;*
 - Secure Leasehold Interest – *Term must be at least 150 percent of mortgage term;*
 - Life Estate or Undivided Interest – *May require others with interest to co-sign;*
 - Possessory Rights – *Native American Lands.*

Housing Assistance Council



© 2010, Housing Assistance Council

Repayment Ratios

- PITI (principal + interest + taxes + insurance)
 - Very low income family: 29%
 - Low income family: 33%
- Total Debt Ratio (PITI + long term obligations and deferred debts)
 - Low or Very Low Income: 41%
- The Rural Energy Plus Program allows a 2% increase to both ratios if the home purchased meets certain energy efficiency standards. (RD UL dated June 4, 2009)



© 2010, Housing Assistance Council

Subsidy Recapture Requirements

- If payments are subsidized through a reduction in the interest rate, some of the subsidy granted may have to be repaid when:
 - The title to the property transfers, or;
 - The borrower is no longer living in the dwelling;
 - Unless the borrower ceases to occupy the property for a reason that is acceptable to RD. (*HB-2-3550, Section 5 of Chapter 2*)

Housing Assistance Council



Special 502 Loan Servicing Authority

- Interest Subsidy
- Workout Agreement
- Moratorium (*7 CFR 3550.207*)
 - A moratorium is an agreement between RD and a program borrower to suspend the requirement for the borrower to make payments for up to a 2-year period;
 - A borrower must first be considered for payment subsidy or an increase in payment subsidy.
- Restructure loan over remaining life of loan.

© 2010, Housing Assistance Council



Homebuyer Education

- First-time homebuyers must complete homeowner education training and receive a certificate prior to closing.
- Certificate valid up to one year prior to closing.
- The RD State Office will maintain a list of providers with costs to homebuyer (if any).
- Packagers should refer borrowers to free homebuyer programs first.
- If there is a charge, the fee may be included in the loan.

© 2010, Housing Assistance Council

Housing Assistance Council



© 2010, Housing Assistance Council

Civil Rights Laws

- **Packagers are subject to Civil Rights laws, the requirements of RD Instruction 1901-E; and other federal laws, including:**
 - The Equal Credit Opportunity Act;
 - Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), as amended;
 - Civil Rights Act of 1964, Title VI;
 - Limited English Proficiency, Executive Order 13166;
 - Section 504 of the Rehabilitation Act of 1973;
 - Americans with Disabilities Act, Title II;
 - Age Discrimination Act of 1975, as amended.



© 2010, Housing Assistance Council

Affirmative Fair Housing Marketing Plans (AFHMP)

- Required when marketing 5 or more housing units; includes packaging. (HB-1-3550 and RD Instruction 1901-E);
- AFHMP goal is to reflect the demographics in eligible communities (Most Recent Census);
- The AFHMP should focus on reaching out to under-served and unrepresented groups in the service area and the outreach methods to reach them.

Housing Assistance Council



Affirmative Fair Housing Marketing Plans (AFHMP)

- To attract applicants least likely to apply for housing in the housing marketing area regardless of their race, color, religion, sex, national origin, disability or familial status.
- AFHMP plan remains in effect for 1 year;
- Successful when community contacts are made.

© 2010, Housing Assistance Council



Variations

- There are several variations of the basic Section 502 direct loan program. These include:
 - Mutual self-help housing;
 - Condominium housing;
 - Community land trusts;
 - Manufactured housing, and;
 - Rural housing disaster loan program.
- A Separate Section 502 guaranteed loan program provides government guarantees of loans made by banks or others.

© 2010, Housing Assistance Council

Housing Assistance Council



Construction Options / Methods

- **Contractor Built**
 - Borrower qualifies for home loan and contracts with a builder to construct the home.
- **Owner Built**
 - Borrower qualifies for a home loan, demonstrates expertise to handle subcontracts and build own home.
- **Conditional Commitment (7 CFR 3550.70)**
 - Builder qualifies the home for RD financing. The builder then finds eligible family to purchase the home.

© 2010, Housing Assistance Council



Construction Options/Methods

Conditional Commitment - (Continued)

- A conditional commitment **is a written assurance from RD to a qualified builder, dealer-contractor, or seller** that a dwelling to be constructed or rehabilitated will be certified as acceptable for purchase by qualified loan applicants, as long as the construction and sales price meet certain conditions.

© 2010, Housing Assistance Council

Housing Assistance Council



© 2010, Housing Assistance Council

Construction Options/Methods

Conditional Commitment - (*Continued*)

- A conditional commitment **is not a reservation of loan funds, nor a guarantee** that an eligible loan applicant will be available to purchase the property;
- Provides a **reasonable assurance to the builder that the home will be eligible for financing** once it is completed. Because an appraisal is completed, a conditional commitment **identifies the maximum loan limit for the home and lot as developed.**



© 2010, Housing Assistance Council

Additional Information

- For additional information on the Section 502 Direct Loan Program and Rural Development, contact the National Office, 1400 Independence Avenue, S.W., Washington, DC 20250; 202-690-1533, or your Rural Development State Office which can be identified at http://www.rurdev.usda.gov/recd_map.html or contacted by telephone through 202-720-4323.

Housing Assistance Council



Strategic Contacts and Partnerships

- Keep HAC in mind for potential training, information, loan assistance, and as a gateway to other federal programs, funding notices, or housing information and policy in general;
- Visit the HAC website at www.ruralhome.org

© 2010, Housing Assistance Council



Office Locations

Housing Assistance Council
1025 Vermont Avenue, N.W.
Suite 606
Washington, DC 20005
202-842-8600, fax: 202-347-3441
hac@ruralhome.org

HAC Southwest Office
3939 C San Pedro, N. E.
Suite 7
Albuquerque, NM 87110
505-883-1003, fax: 505-883-1005
southwest@ruralhome.org

HAC Southeast Office
600 West Peachtree Street, NW
Suite 1500
Atlanta, GA 30308
404-892-4824, fax: 404-892-1204
southeast@ruralhome.org

HAC Midwest Office
10100 NW Ambassador Drive
Suite 310
Kansas City, MO 64153
816-880-0400, fax: 816-880-0500
midwest@ruralhome.org

HAC Western Office
1025 717 K. Street
Suite 404
Sacramento, CA 95814
916-706-1836, fax: 916-706-1849
western@ruralhome.org

© 2010, Housing Assistance Council

Housing Assistance Council



Wrap-Up

- Participant Questions
- Conclude