Hardworking families across the country are striving to achieve homeownership and, quite often, this dream is well within their reach if they can access affordable loans. The U.S. Department of Agriculture (USDA) Section 502 Direct Loans provide single-family housing loans in rural areas to eligible low- and very low-income applicants who are unable to obtain credit elsewhere. Under this program, eligible applicants may obtain 100 percent USDA direct financing to purchase a home.

These loans, though only a small investment on the part of the government, provide critical assistance in filling a problematic funding gap in the private market. According to the National Rural Housing Coalition, over the past 60 years, the direct loan program has helped more than 2.1 million families achieve homeownership and has helped build their wealth by more than $40 billion.

Loans may be used to purchase new or existing dwellings or new manufactured homes. At least 40 percent of Section 502 funds must be used to assist families earning less than 50 percent of area median income (AMI).

Section 502 Direct Loans may be made to applicants who meet the income criteria that are based on the median income in each county.

In addition to the income criteria, applicants must:

- Have acceptable credit history
- Have stable income and ability to repay the loan
- Have acceptable debt load for income level
- Plan to personally occupy the dwelling
- Be a US citizen or qualified resident

What are the loan terms?

- 33 or 38 year terms
- Homes must be considered modest for the area and be in average or better condition.
- NO farmsteads, income producing structures, acreage large enough to subdivide, or in-ground swimming pools.
- Loan amounts can be approved up to 100% of the APPRAISED value, plus you may include the cost of the appraisal and tax service fees.
- Home may not exceed maximum purchase price limits for the county where it is located.
- Interest rate may be subsidized for qualified applicants, thereby making payments more affordable.

What are the maximum purchase price limits?

To view the income limits for counties in Colorado visit:

Contact Colorado Housing Enterprises and the CRHDC office today for more information! 303-428-1448 or 719-589-1680
Description

The Section 502 Guaranteed Rural Housing Loan Program is designed to serve rural residents who have a steady, low or modest income, and yet are unable to obtain adequate housing through conventional financing. These loans enable low- and moderate-income rural residents to acquire modestly priced homes. They can be used to purchase new or existing dwellings or new manufactured homes. RD does not make loans directly to eligible borrowers, but guarantees loans made by commercial lenders.

Eligibility

An eligible applicant must have an adequate and dependable income (up to 115 percent of adjusted area median income [AMI]) and a decent credit history, and be unable to qualify for conventional mortgage credit. RD uses two formulas to determine a family’s ability to undertake the responsibility of a mortgage. First, the burden of principal, interest, taxes, and insurance (PITI) must be 29 percent or less of gross monthly income. Second, the total of monthly debts must be 41 percent or less of gross monthly income.

Terms

- Loans have 30-year terms and fixed market-level interest rates.
- Loans may be for up to 100 percent of market value or for acquisition cost, whichever is less.
- The maximum loan amount is based on what the homeowner can afford.
- Loans may include closing costs, legal fees, title services, the cost of establishing an escrow account, and other prepaid items as long as the appraised value is higher than the sales price. No private mortgage insurance is required.

The important differences between the Section 502 guaranteed and direct loan programs are:

- The lender for Section 502 guaranteed loans is a private savings and loan institution, bank, or mortgage company which also handles all the loan servicing. The lender and servicer for the direct program is USDA RD.
- Income levels for Section 502 guaranteed borrowers are capped at 115 percent of the area median income. Income levels for the direct program must be no more than 80 percent of the AMI.
- Payment assistance subsidy is not available through the guaranteed program. Payment assistance, which can reduce the interest paid on the mortgage to as low as 1 percent, is available for borrowers in the direct program and is based on the borrower’s income.
- Borrower protections differ between the programs. Applicants for guaranteed loans do not have the rights of moratorium or of appeal that accompany the direct program. Also, in the case of default, Section 502 guaranteed loans are liquidated by the commercial lender, while direct loans are liquidated by the government.

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