

# Rural Development Housing Programs

prepared for



**ILLINOIS**  
ASSOCIATION OF  
**REALTORS®**

by

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**Housing Program Director / IL**

**East Peoria: January 25, 2011**



*Committed to the future of rural communities*

# Two Separate and Distinct 100% Financing Programs

- **Direct Loans**

- Rural Development (RD) is the lender
- Subsidized loan product with asset limitations
- Funds are targeted to lower income homebuyers
- Funds are limited
- Timeframes to close are longer due to additional inspections (6-8 weeks)



- **Guaranteed Loans**

- RD is not the lender, but “guarantees” a participating lender’s loan
- Funds are targeted to moderate income homebuyers and are available throughout the year
- No downpayment or asset limitations
- Timeframes to close are no different than conventional loans



Know the difference between these two 100% loan products...clients and expectations are not the same.

# Property Eligibility



## Existing SFH Homes & New Construction

- New Construction is built to local codes and State of Illinois Energy Efficiency Residential Code (IECC, latest Edition)
- Modular Homes (new or existing...same as above, no problem)
- Manufactured (no existing single or double wides are eligible unless originally financed by USDA when built)



## Zero Lot Line Duplex

- Eligible to finance the owner-occupied half
- Shared (walls/roof/driveway) maintenance agreements
- Fee Simple and Planned Unit Developments (PUDs) are eligible



## Condo

- Restricted to one owner-occupied unit
- Accepted by HUD, VA, Fannie or Freddie

# Property Eligibility

## Property restrictions

- ✓ Property must be located in an eligible rural community
  - Non-metro communities with less than 20,000 population, including Carbondale, Charleston, Freeport & Jacksonville which are eligible
- ✓ No income-producing land or structures
- ✓ Modest in size and cost
- ✓ Maximum loan limit (direct loans only...guaranteed loans have no maximum)
  - Direct loan limits vary by county (\$142,000 to \$200,000 in Illinois)
  - Exceptions for large households and those with special needs
- ✓ No in-ground swimming pools
- ✓ Adequate utilities and access
- ✓ New or Existing Homes (construction or “take out” financing)
- ✓ Minimum adequate site required, but no set acreage maximum



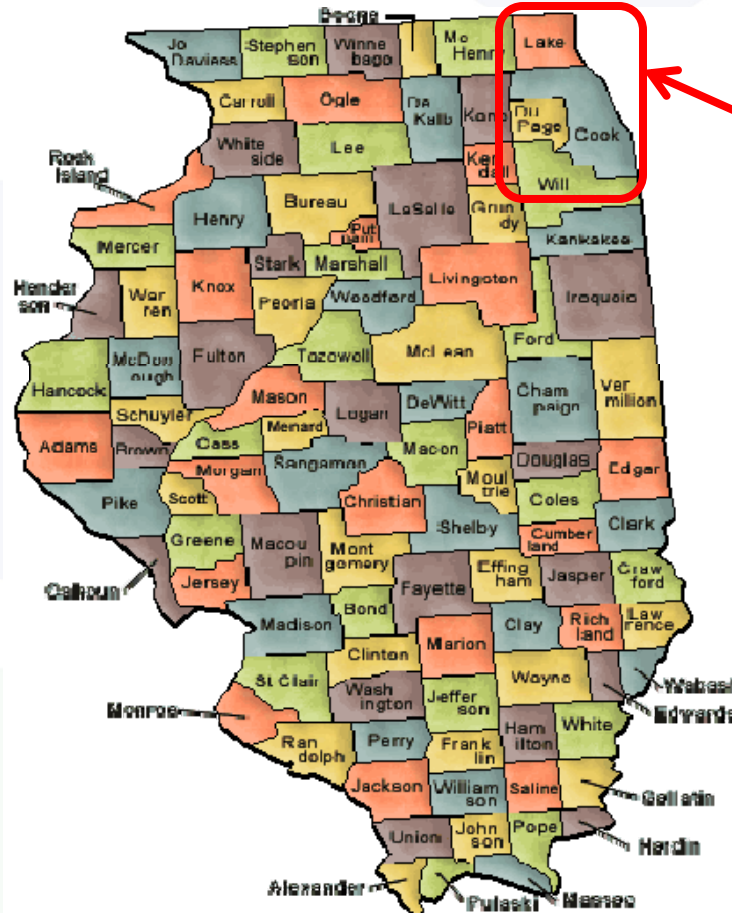
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Contact Rural Development for an application! More information online at <http://www.rurdev.usda.gov>

# Property Eligibility

## Quick List of Counties Containing Ineligible Areas

Adams  
Boone  
Champaign  
Cook  
DeKalb  
DuPage  
Grundy  
Kane  
Kankakee  
Kendall  
Knox  
Lake  
McHenry  
McLean  
Macon  
Madison  
Peoria  
Rock Island  
St. Clair  
Sangamon  
Tazewell  
Vermilion  
Will  
Winnebago



Cook, DuPage  
and Lake counties  
are not eligible

Income & Property Eligibility can be determined online at:  
<http://eligibility.sc.egov.usda.gov/eligibility/>

# Homeownership Loans (Direct program)

- Eligible loan purposes can include acquisition, construction , minor repair or refinancing of a permanent residence, plus:
- Site-related costs
  - Provide adequate utilities
  - Site preparation, including grading, foundation plantings, seeding or sod, trees, walks, yard fences, and driveways
- Dwelling-related costs
  - Special design features necessary because of a physical disability
  - Energy saving materials (insulation)
  - Washer, dryer, refrigerator, range
  - Minor repairs (not a “fixer-upper” program)
- Fees
  - Taxes, title, closing costs
  - Any Local Building or Inspection fees



# Direct Borrower Eligibility

## Other

- ✓ Income limits: Up to 80% of Area Median Income Depending on household size. For example:

Tazewell County	80% of Median
1 Person Household	\$37,350
2 Person Household	\$42,700
3 Person Household	\$48,000
4 Person Household	\$53,350
5 Person Household	\$57,600

- ✓ Asset limits: Up to \$15,000 in cash or other property convertible to cash; (\$20,000 if elderly or disabled). Assets above these limits must be used for closing costs or down payment

# Direct Borrower Eligibility

## Other

- ✓ Income must be Stable and Dependable and demonstrate repayment ability (29% PITI\* / 41% TD Ratios)
- ✓ Credit must be acceptable. There is not a minimum credit score, but scores greater than 640 are eligible for a quicker review. Less than perfect credit history may be accepted with explanations of temporary circumstances. Delinquency on any Federal Debt (e.g. student loans, previous government loans) are not accepted.
- ✓ Unable to obtain conventional credit at affordable rates/terms.
- ✓ Have legal capacity (18 years old or emancipated).
- ✓ Not suspended or debarred from participation in Federal programs.
- ✓ Be a U.S. citizen or permanent resident alien (individuals that are undocumented or hold temporary work or student VISAs are not eligible)



\*PITI = Principal, Interest, Taxes and Insurance typically 29% of Stable Monthly Income, but may be as high as 33% in some cases.

# Payment Assistance

- ✓ Allows applicants to be eligible for a larger loan amount and home that meets their needs.
- ✓ A funded buydown (called payment assistance) reduces the monthly payment to as little as 24% of adjusted income (effectively as low as a 1% interest rate loan).
- ✓ Note rate for January is 4.25%, but a buydown through Payment Assistance can reduce that rate as low as 1%.
- ✓ Recapture of subsidy is calculated when the home is sold or loan is refinanced (recapture is always limited to 50% of appreciation – plus a 25% discount on recapture if refinanced and the borrower is still occupying the home).
- ✓ When homeowners are able to refinance USDA's loan, they must do so...USDA is not competing with other lenders for business.



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Example: \$100,000 loan, \$2,400 taxes; \$600 insurance  
4.25% = \$721 PITI; Reduced to 1% = \$547 PITI (\$174 less)

# Where's the Catch?

## **Direct Loans**

- ✓ No Application Fee
- ✓ No Origination Fee
- ✓ Fixed Credit Report Fee
  - \$32 individual or joint applicants;
- ✓ \$125 Tax Service Fee (payable at closing and included in the loan)
- ✓ \$425 Appraisal Fee (payable at closing and included in the loan)
- ✓ Initial escrow for taxes & insurance (payable at closing from seller's pro-ration of taxes, borrower funds, or included in the loan)
- ✓ Title Insurance Policy (as selected by the applicant)
- ✓ Homeowner's Insurance (1<sup>st</sup> year premium paid by the applicant)
- ✓ Loans serviced in house by USDA's Servicing Center (St. Louis MO)
- ✓ **NO HIDDEN CHARGES!**



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Contact the Rural Development for an application! More information online at <http://www.rurdev.usda.gov>

# Homeownership Loans Guaranteed Program

- Eligible loan purposes can include acquisition, construction or minor repair of a permanent residence (not refinancing), plus:
- Site-related costs
  - Provide adequate utilities
  - Site preparation, including grading, foundation plantings, seeding or sod, trees, walks, yard fences, and driveways
- Dwelling-related costs
  - Special design features necessary because of a physical disability
  - Energy saving materials (insulation)
  - Washer, dryer, refrigerator, range
  - Minor repairs (not a “fixer-upper” program)
- Fees
  - Taxes, title, closing costs
  - Any Local Building or Inspection fees



# Homeownership Loans Guaranteed Program

## Other

- ✓ Income limits: Up to 115% of Area Median Income Depending on household size. For example:

<b>Tazewell County</b>	<b>115% of Median</b>
1 Person Household	\$76,700
2 Person Household	\$76,700
3 Person Household	\$76,700
4 Person Household	\$76,700
5+ Person Household	\$101,250

- ✓ No Asset limits: Guaranteed homebuyers can even own one other residence outside the commuting area!

# Guaranteed Borrower Eligibility

## Other

- ✓ Income must be Stable and Dependable and demonstrate repayment ability (29% PITI / 41% TD Ratios\*)
- ✓ Credit must be acceptable. There is not a minimum credit score, but scores greater than 640 are eligible for a quicker review. Less than perfect credit history may be accepted with explanations of temporary circumstances. Delinquency on any Federal Debt (e.g. student loans, previous government loans) are not accepted.
- ✓ Unable to obtain conventional credit at affordable rates/terms.
- ✓ Have legal capacity (18 years old or emancipated).
- ✓ Not suspended or debarred from participation in Federal programs.
- ✓ Be a U.S. citizen or permanent resident alien (individuals that are undocumented or hold temporary work or student VISAs are not eligible)



\*Lenders can also use USDA's automated Guaranteed Underwriting System (GUS) instead of manually underwriting loans

# Where's the catch?

## **Guaranteed Loans**

- ✓ Loans up to 100% of appraised value, plus
- ✓ One time 3.5% Guarantee Fee which can be financed
- ✓ No monthly mortgage insurance
- ✓ Up to a 1% lender Origination Fee and other typical lender charges which can also be financed (if supported by the appraisal)
- ✓ 48 Hour turnaround by RD to participating lenders
- ✓ Lender uses their own forms and documents, and just one RD form
- ✓ Escrow for Taxes and Insurance
- ✓ Title Insurance Policy (as selected by the applicant)
- ✓ Lender underwrites their own files or uses automated GUS
- ✓ Loans serviced by the lender or can be transferred to another USDA approved loan servicer
- ✓ **NO HIDDEN CHARGES!**



All guaranteed loans are fixed rate, 30 year term, with no early prepayment penalty – not a predatory loan product

# RD Really Dilapidated



Not “Fixer Upper” programs:

- Direct loans require an Illinois licensed home inspection (no exceptions)
- Guaranteed lender’s can utilize FHA roster or non-roster appraisers familiar with HUD Handbooks 4150.2 & 4905.1 and waive all other inspections except for private water systems which must be tested

# Other Rural Development Programs

- ✓ Self Help Housing Grants (technical assistance for NFPs)
- ✓ Site Loans (for NFPs up to 2 year term)
- ✓ Farm Labor Housing Loans and Grants (for Farm Owners & NFPs)
- ✓ Housing Preservation Grants (for NFPs working with other funding sources)
- ✓ Rural Rental Housing loans (1% financing for new MFH const/rehab) with project based Rental Assistance available
- ✓ Rural Community Development Initiative grants (for NFPs)
- ✓ Business Loan Guarantees
- ✓ Renewable Energy Loan Guarantees and Grants
- ✓ Rural Business Enterprise Grants (for NFPs)
- ✓ Intermediary Relending Loan / Grants (for NFPs and Electric Cooperatives)
- ✓ Value Added Producer Grants
- ✓ Community Facility Loans and Grants (for NFPs)
- ✓ Water / Waste Disposal Loans and Grants (for NFPs and Municipalities)
- ✓ Broadband Loans and Grants



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More information is available at  
[www.rurdev.usda.gov](http://www.rurdev.usda.gov) !!

# 12 Illinois Offices to Serve You!

Oregon

(815)732-6127, ext. 4

Ottawa

(815)433-0551, ext. 4

Princeton

(815)875-8732, ext. 4

Pontiac

(815)844-6127, ext. 4

Galesburg

(309)342-5138, ext. 4

Quincy

(217)224-9307, ext. 4

Jacksonville

(217)243-1535, ext. 4

Champaign

(217)352-3536, ext. 4

Effingham

(217)347-7107, ext. 4

Mt Vernon

(618)244-0773, ext. 4

Edwardsville

(618)656-7300, ext. 4

Marion

(618)993-5396, ext. 4



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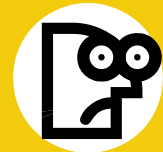
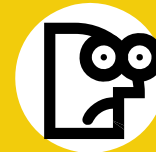
More information is available at

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# Questions?

Rural Development is an Equal Opportunity Lender, Provider, and Employer. Complaints of discrimination may be sent to:

USDA, Director,  
Office of Civil Rights,  
1400 Independence Ave, SW  
Washington DC 20250-9410



**It's QUESTION TIME!!**



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