



The purpose of this presentation is to give viewers a basic overview of the Section 502 direct loan program. Through this presentation, you will be briefly introduced to this program and pointed to resources where you can learn more about the program. This presentation has a revision date of September 1, 2023. Please refer to program regulations and handbooks for the most recent information.

## Section 502 Direct Loan Program Overview

- Authorized by the Housing Act of 1949
- Provides affordable housing loans to eligible low- and very low-income applicants who wish to obtain modest housing in rural areas  
<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- Rural Development (RD or Agency) is the lender and servicer

The Section 502 Direct loan program is authorized by the Housing Act of 1949 and provides affordable housing loans to eligible low- and very-low income applicants who wish to obtain modest housing in rural areas. Using the eligibility website on this slide, you can find income limits and eligible areas.

In addition to meeting the program's income limits, applicants must meet the program's eligibility requirements related to:

- Citizenship status – The applicant must be a U.S. citizen or a noncitizen who qualifies as a legal alien.
- Principal residence – The applicant must agree to and have the ability to occupy the home on a permanent basis.
- Current homeownership – An applicant who owns adequate housing is generally not eligible. A current homeowner may receive a RD loan in limited circumstances.
- Legal capacity – The applicant must have legal capacity to incur the loan.
- Suspension/debarment – The applicant cannot be suspended or debarred from participating in federal programs.
- Repayment ability – The applicant must show adequate repayment ability for the loan based on the program's qualifying ratios.
- Credit qualifications – The applicant must have a credit history that indicates a

reasonable ability and willingness to meet their debt obligations. While the Agency uses credit scores to potentially expedite the creditworthiness analysis, there isn't a credit score eligibility requirement.

- Homeownership education – First-time homebuyers are required to take an approved homeownership education course.

Modest housing is defined as a property that:

- Is considered modest for the area.
- Does not have a market value in excess of the applicable area loan limit.
- Generally does not exceed 2,000 square feet living area (above grade).
- The land must be minimally adequate and not large enough to subdivide under local zoning rules. In some places, this might be 5 acres. In other places, it might be 0.25 acre or less. There is no "one size fits all" definition.

Rural areas are defined as open country and places with a population of 10,000 or less and, under certain conditions, towns and cities between 10,000 and 20,000 population. Use the property eligibility website to determine if a property is in a rural area:

<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

While there are some program similarities, the direct loan program fundamentally differs from the guaranteed loan program in that direct loans are subsidized loans funded by the government and serviced by RD's Servicing and Asset Management Office . Guaranteed loans are nonsubsidized loans funded and serviced by an approved lender; the government guarantees the loans. The income level served also differs between the programs. The guaranteed loan program largely serves applicants with moderate incomes (up to 115% of the statewide non-metro median income).

## 100% Financing

- 100% financing without private mortgage insurance
- Eligible loan purposes and uses include site-related costs, dwelling-related costs, and fees/related costs
- Eligible loan amount is limited by the applicant's repayment ability and the home's appraised value

502 loans typically provide 100% financing without private mortgage insurance or a down payment. A down payment is only required if the cash value of the applicant's non-retirement assets is greater than \$15,000 for nonelderly households or \$20,000 for elderly households. Assets aside, the Agency will limit the financing to 90% of the home's value if the construction quality of a new home cannot be adequately documented.

The appraisal fee, tax service fee, and initial contribution to fund the escrow account can exceed the appraised value. For first-time homebuyers, who are required to take a homeownership education course, the fee for the course can also exceed the appraised value.

## Loan Terms

- Standard loan term is 33 years
- Loans up to 38 years is permitted when the household's adjusted income doesn't exceed 60% of the area median and a longer term is needed for repayment
- Manufactured homes have a maximum 30-year term

The standard 502 direct loan term is 33 years.

However, loans up to 38 years are permitted when the household's adjusted income doesn't exceed 60% of the area median and a longer term is needed for repayment.

Manufactured homes have a maximum 30-year term.

## Interest Rate and Payment Assistance

- Interest rate is fixed  
[www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans](http://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans)
- Borrowers may be eligible for payment subsidies that reduce their effective interest rate and their monthly mortgage payment
- Depending on the home's value, subsidies received may be repaid at the time of sale or non-occupancy

The program's interest rate is posted at the beginning of each month on the Agency's website under Single Family Housing Direct Home Loans (see the "Overview" tab).

[www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans](http://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans)

The applicant's loan will have an interest rate that is the lower of the interest rate at the time of loan approval or the interest rate at the time of loan closing. The lower of these two interest rates is fixed for the life of the loan and is referred to as the applicant's full note rate.

Applicants eligible for payment subsidies have a reduced monthly payment which is the greater of:

- At least 24 percent of the household's adjusted monthly income, or
- An equivalent interest rate of 1 percent.

Household income changes affect this subsidy. Regardless of changes, USDA re-verifies household income each year.

All or part of this subsidy is repaid when the borrower transfers title or does not occupy the home. The subsidy repaid never exceeds the home's increased value or the amount received.

# Roles and Responsibilities

## National Office (N/O)

- Issues nationwide loan making guidance
- Provides technical assistance
- Conducts program and compliance reviews
- Manages nationwide funding allocations
- Markets program to nationwide partners

## Servicing and Asset Management Office (S/O)

- Issues nationwide servicing guidance
- Services loans after closing
- Requests Field Office assistance when needed

## State Office

- Issues state specific guidance, which must be approved by N/O
- Liaison between N/O and Field Offices
- Manages statewide funding allocations
- Markets program to statewide partners
- Conducts statewide program and compliance reviews
- Provides feedback to N/O regarding program guidance and delivery

## Field Office

- Delivers the program to the customers
- Markets the program locally
- Accepts and processes applications
- Provides feedback to State Office regarding program guidance and delivery
- Works with S/O to assist with servicing actions when needed

Several RD offices are responsible for administering the direct loan program.

While by no means a comprehensive list of the activities performed by each RD office, this slide shows the relationship between National Office (N/O), the Servicing and Asset Management Office (S/O), the State Office, and the Field Office. The work performed by each RD office is critical in creating homeownership opportunities as well as successful homeownership following loan closing.

In the following slides, the potential involvement of a loan application packager will be discussed.

## Loan Application Packaging

A loan application packager, who does not work for or represent RD, provides an optional service to parties seeking a housing loan by helping them navigate the loan application process.

- Certified Packager
- Non-Certified Packager

A loan application packager can help determine if the Section 502 direct loan program is a good fit for a prospective homebuyer, and if so, help them assemble a complete loan application package for consideration by the local RD office. Applicants are not required to work with a loan application packager to receive assistance from RD; they may work directly with RD.

A loan application packager generally charges a fee for their service. The amount of the packaging fee and whether it can be included in the RD loan varies depending on the packaging type.



## Certified Packagers

- Experience
- Training
- Structure, and performance requirements
- Access to funding reserves for applications submitted via an intermediary
- Three parties involved in the certified packaging process:
  - Agency-certified loan application packager
  - Qualified employer
  - Agency-approved intermediary

The certified packaging process assists with program marketing and application origination.

Certified packagers must meet experience, training, and performance requirements within the application processing structure.

Applications submitted to the Agency via an intermediary have access to national office funding reserves.

The 3 parties involved in the certified packaging process include the Agency-certified loan application packager, Qualified Employer (these two combined are called the certified packaging body) and the Agency approved intermediary.

Next a high level list of roles and responsibilities within the certified packaging process will be provided.

## Certified Packaging Roles and Responsibilities

- Agency – Makes all decisions regarding eligibility, underwriting, final approval, and closing
- Certified Packager – Markets the program, prescreens and counsels potential applicants, and assists the applicant in assembling a complete application
- Intermediary – Performs quality assurance reviews, recruits certified packaging bodies, and provides supplemental training, technical assistance and support to certified packaging bodies

<https://www.rd.usda.gov/programs-services/services/direct-loan-application-packagers>

To learn more about loan application packaging, please see Attachment 3-A of Handbook-1-3550. Details on how to view the handbook will be provided soon.

Parties interested in serving as a certified packaging body should contact the intermediary or intermediaries that cover their particular state. The list of approved intermediaries and their contact information can be found on the Agency's direct loan application packagers website:

<https://www.rd.usda.gov/programs-services/services/direct-loan-application-packagers>

Under the "Resources" header, select "Intermediary Coverage Map". This will take you to an interactive map. Simply click on your state and you will be directed to the intermediary contact(s) for that state.

## 7 CFR 3550 Regulation

The direct loan program's regulation is found in the Code of Federal Regulations (CFR) at 7 CFR Part 3550. The program's regulation and guidelines can be found using the following link:

<https://www.rd.usda.gov/resources/regulations/program-regulations>

As stated previously, RD was established with the Housing Act of 1949. The regulation which governs the direct loan program is 7 CFR 3550. This regulation provides the overarching requirements of the program and is supplemented by Handbook-1-3550, Administrative Notices, Procedure Notices, Unnumbered Letters, and Forms. Additionally, there are RD Instructions which Agency staff must be aware of and follow when delivering the program. Applicable RD Instructions include but are not limited to:

- RD Instruction 1924-A, Planning and Performing Construction and Other Development
- RD Instruction 1924-C, Planning and Performing Site Development Work
- RD Instruction 1901-E, Civil Rights Compliance Requirements
- RD Instruction 1970 series, Environmental

# Handbook-1-3550

<https://www.rd.usda.gov/resources/directives/handbooks>

The screenshot shows the USDA Rural Development website's 'Handbooks' page. The page features a navigation menu with 'RESOURCES' selected. A large banner image of a green field is at the top. Below the banner, the page is titled 'Handbooks' and lists three handbooks:

- [HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook](#) +
- [HB-1-3555 SFH Guaranteed Loan Program Technical Handbook](#) +
- [HB-1-3560 MFH Loan Origination Handbook](#) +

An arrow points from the text 'CLICK HERE' to the first link.

This is a screen print of the Rural Development Handbooks. Since Handbook-1-3550 provides the day-to-day guidance on processing direct loan applications, let's go through the steps on how to find it.

From this page, click "Handbook-1-3550, Direct Single Family Housing Loans and Grants – Field Office Handbook".

## Searching Handbook-1-3550

To open a specific chapter, select that chapter's link

To open the entire handbook, select Consolidated version at the top of the chapter listing

HB-1-3550 is available chapter by chapter, or you can open the entire HB and search

<a href="#">Consolidated version (large document may take long to load)</a>	
<a href="#">Table of Contents</a>	
<a href="#">Acronyms</a>	
<a href="#">Glossary</a>	
<a href="#">Chapter 1</a>	Overview
<a href="#">Chapter 2</a>	Overview of Section 502
<a href="#">Chapter 3</a>	Application Processing
<a href="#">Chapter 4</a>	Borrower Eligibility

On the Handbooks webpage, you will see the various handbooks for the RD housing programs (direct, guaranteed, single family, and multi family). You will also notice that there are handbooks for loan origination as well as for loan servicing.

Handbook-1-3550 (HB-1-3550) contains multiple chapters as well as a glossary, a list of acronyms, and various appendixes. Please note that Appendix 1 contains a copy of 7 CFR 3550.

The handbook can be opened chapter by chapter, or you can open the entire document using the "consolidated version" link at the top of the chapter listing. This option is helpful when you are searching for guidance and may not know which chapter to reference.

## Govdelivery

Sign up for Govdelivery to receive email updates on this program.

Using the link below, enter your email and select the “SFH Direct Loan and Grant Programs” (and any other programs of interest) and then click “Submit”.

[https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD\\_25](https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD_25)

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This email subscription service is used to provide updates regarding the:

- Program’s interest rate,
- Changes to Handbook-1-3550,
- Certified packaging process,
- And much more.

## USDA is an equal opportunity provider, employer, and lender

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD 3027, found online at [http://www.ascr.usda.gov/complaint\\_filing\\_cust.html](http://www.ascr.usda.gov/complaint_filing_cust.html) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by mail at: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410; by fax (202) 690-7442; or email at [program.intake@usda.gov](mailto:program.intake@usda.gov).





Are you interested in learning more about the Single Family Housing Direct Programs?  
Please contact your applicable RD State Office.

<https://www.rd.usda.gov/contact-us/state-offices>

USDA is an equal opportunity provider, employer, and lender.

**Are you interested in learning more about the Single Family Housing Direct Programs?**

Please contact your applicable RD State Office. Contact information can be found using the link on the slide.

Finally, please note that the contents of this training are current as of this presentation's revision date. Please refer to Handbook-1-3550 for the most recent guidance on the programs.