

MORTGAGE LENDING UPDATE

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USDA Home Loans

United States Department of Agriculture (USDA) home loans are also known as Guaranteed Rural Housing Loans. This program is administered by USDA Rural Development, which serves the public through more than 800 field offices nationwide. Many rural families and individuals may be eligible to become homeowners with the help of a USDA guaranteed home loan. When the federal government agrees to guarantee a loan, lending institutions can help buyers while incurring less risk. Through USDA's Guaranteed Rural Housing Loan Program, low- and moderate-income people may qualify for mortgages even without a down payment.

To be eligible, applicants must have an adequate and dependable income; be a U.S. citizen, qualified alien, or be legally admitted to the United States for permanent residence; and have an adjusted annual household income that does not exceed 115% of the "Area Median Income", adjusted for family size and established for the particular county. A family's income includes the total gross income of the applicant, co-applicant and any other adults in the household. (This maximum income works out to be somewhere in the low to mid \$70,000 annual income range.) Applicants may be eligible to make certain downward adjustments to gross income— such as annual child care expenses and \$480 for each minor child—in order to qualify. There is a handy automated income eligibility calculator at: <http://eligibility.sc.egov.usda.gov> . Using this calculator is the best way to determine if you qualify from a maximum income standpoint.

Furthermore, applicants must have a credit history that indicates a reasonable willingness to meet obligations as they become due. (Typically a minimum middle credit score of 620 is needed.) They also must have repayment ability based on the following debt to income ratios: The total principle, interest, taxes, and insurance (PITI) total proposed monthly house payment divided by gross monthly income must be equal to or less than 29 percent. Total of all debt payments, including PITI, divided by gross monthly income must be equal to, or less than, 41 percent. These debt ratios may be somewhat exceeded on a case by case basis if other compensating factors exist.

Guaranteed Rural Housing loans can be made on either new or existing homes. Existing homes must be structurally sound, functionally adequate, and in good repair. Other than a prohibition on manufactured homes, there are no restrictions on the size or design of the home being financed. The home and any other structure on the property must not be used for income-producing purposes.

Homes must be located 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 with between 10,000 and 25,000 residents. You may also refer to the above referenced USDA website to determine if a particular property address is located in an eligible area. Generally speaking, if the property is located in an urban area, it would likely not qualify. For example, no property in Bibb County would be eligible for a USDA home loan.

If, however, the home is located in an area that is rural, it would likely qualify. South Houston County below Sandefur Road (approximately) is eligible. Most of the non-urban areas of the following counties are eligible: Jones (except for areas near Macon), Laurens (except for Dublin) and Baldwin (except for Milledgeville). The following counties in central Georgia are entirely eligible: Bleckley, Butts, Crawford, Dodge, Dooly, Jasper, Lamar, Macon, Monroe, Peach, Pulaski, Putnam, Taylor, Twiggs, Upson, and Wilkinson. Again, go to the above website to see about any particular address.

Highlights of the USDA Guaranteed Rural Housing Loan Program are as follows. Loans may be for up to 100 percent (102 percent if the guarantee fee is included in the loan) of appraised value. No down payment is required. Mortgages are 30-year fixed rate at market interest rates. If the appraised value is higher than sales price, the loan amount may include funds for needed repairs, closing costs, legal fees, title services, cost of establishing an escrow account and other prepaid items. Sellers may contribute to the buyer's closing costs. Home buyers make application with participating lenders. First time homebuyers must take a homebuyer education course.

Buyers must personally occupy the dwelling following the purchase. On purchase transactions, a one-time guarantee fee equal to 2.0 percent of the loan amount is charged. This amount is usually added to the loan amount. Loans may also be made to refinance either existing USDA Rural Development Guaranteed housing loans or USDA Direct housing loans. The USDA fee for refinance transactions is 0.5 percent. After the one-time fee is paid, there is no recurring monthly fee charged for guaranteeing the loan.

Interested home buyers should call or visit a local lender member of the MBAG (mbag.org) or GAMB (gamb.org) for more information about this excellent and useful program.

David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, mbag.org. For an archive of past articles visit mbag.org/ML_Update.htm.(2/4/10)