

## Understanding The USDA Rural Development Loan Program

USDA Rural Development Loan Program is a fantastic no money down, 100% financed USDA loan program that is ideal for certain homes and certain buyer(s). Trying to determine the areas and buyers that are eligible for the USDA Loan Program is a constant source of confusion for less experienced Realtors, Lenders, and homebuyers. I have 13 years as a Federally Licensed Mortgage Broker helping home owners use this great program. I know it in and out.

To demystify this loan program and simplify the USDA Loan Program homebuyers can either reference the USDA Loan underwriting guidelines (RD 1980-D). Or assuming that reading several hundred pages of a lender handbook may be too time consuming, reference the following as a quick summary report on the "nuts and bolts" of the USDA Rural Development Loan Program:

1. The house has to be located in a rural area as designated by USDA. To determine the designated areas reference the USDA Website.
2. The household income must be moderate as determined by USDA. On this note don't get cute and leave a family member off the loan to lower the income. USDA will need to see the tax returns for the borrower and their spouse. To determine the designated areas reference your state specific information listed on [www.USDA Rural Loan.com](http://www.USDA Rural Loan.com)
3. If it appears that the household income exceeds the moderate income thresholds established by USDA, don't throw in the towel just yet. USDA allows for deductions for child care and medical expenses as well as for children, students, handicapped, disabled, and elderly members of the household that will be living in the USDA financed property.
4. This is not a farmer's loan. As a matter of fact the land value of the property can't exceed 30% of the appraised value.
5. The house has to be in fairly good condition. The appraisal type used is a FHA appraisal so make sure that there aren't any safety related challenges (i.e. missing banisters, peeling paint, exposed electric).
6. This is a true no money down loan program. Or stated differently you don't need any money down.
7. There is no monthly mortgage insurance, which makes this loan more affordable than FHA when analyzing down payment requirements and monthly mortgage payments.
8. The seller can pay all closing costs and pre-pays (i.e. escrows). Often the homebuyer's only out-of-pocket cost as part of the purchase transaction is to pay for a \$450 appraisal report.

9. If the house appraises for more than the purchase price the difference can be used to pay for closing costs and pre-pays (i.e. escrows). This is the only loan program currently available that allows for closing costs to be rolled on top of the purchase price.
10. The house may have an in-ground pool if specific guideline requirements are met.
11. USDA has no restriction on whether you are a first time homebuyer or move up homebuyer.
12. This loan program is only for primary residence (i.e. no second home or investment properties).
13. You shouldn't own any other functional property; although if you are relocating and can't sell your current house USDA may waive this requirement.
14. The minimum credit score is 640. In the old days USDA would ignore derogatory credit with a 640 score but has recently become much less lenient on this topic.
15. All property types including single family homes, town homes, modular, and even condominiums qualify for this loan program. Manufacture homes such as single and doublewide don't qualify.
16. There is no maximum mortgage amount, but the house does have to be considered moderate in size.