

# Understanding USDA/Rural Development's Subsidized 502 Loan



Committed to the future of rural communities.

# OVERVIEW





## *Purpose:*

Section 502 loans are primarily used to help low-income individuals or households purchase homes in rural areas.

Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities.



## *Eligibility:*

Applicants for direct loans must have very low or low incomes

Very low income is defined as  
below 50% of the area median income (AMI)  
low income is between 50% and 80% of AMI

## *Eligibility:*

Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance, which are typically within 24 to 33 percent of an applicant's income.

However, payment subsidy is available to applicants to enhance repayment ability. Applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories.



## Standards:

Housing must be modest in size, design, and cost.

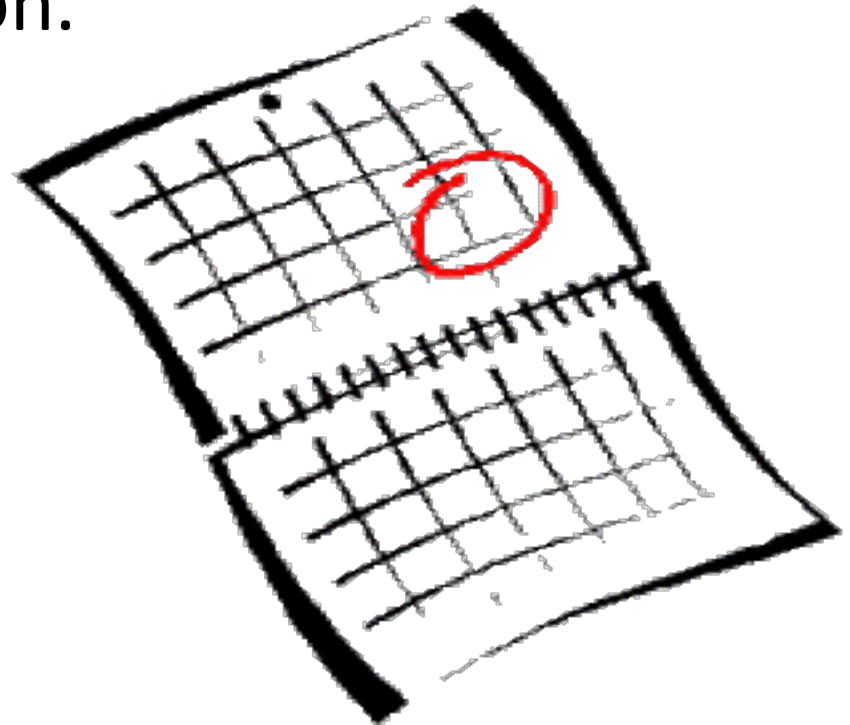
Modest housing is property that is considered modest for the area, does not have market value in excess of the applicable area loan limit (\$280,000 in Clark County) and does not have certain prohibited features.



Houses constructed, purchased, or rehabilitated must meet the voluntary national model building code thermal and site standards. Manufactured housing must be permanently installed & meet the HUD Manufactured Housing Construction and Safety Standards & thermal & site standards.

## *Approval:*

- Rural Development officials should make an initial eligibility decision within 30 days of the Rural Development office's receipt of the full, completed application.







## **FUND AVAILABILITY AND MAXIMUM AMOUNTS:**



Funding is based upon an annual appropriation. Loans may be for an amount up to 100% of the appraised value of the property. RHS loans may be subsidized.

## TERMS:

- Maximum repayment period is typically 33 years. However, 38-year terms may be provided depending on applicant qualifications.

years



## INTEREST RATE:

- Interest rates are fixed. The current rate is 3.75%, however, most loans are made with a **subsidy provision to enhance affordability**.
- When a subsidy agreement is in effect, the *interest may be deferred for qualifying families to a payment equivalent to as low as 1% APR.*



# Subsidy



- The subsidy is subject to change periodically to reflect changes in the borrower's situation. (Usually a two year agreement)
- Payment Assistance (Subsidy) agreements may be renewed indefinitely throughout the loan
- Subsidized loans are subject to recapture for a portion of the subsidy granted when the property is either sold or no longer used as a home for the borrower

# REPORTING REQUIREMENTS:



- Borrowers who receive payment subsidies must notify the Agency whenever the household composition changes, or if income increases by more than 10%
- A borrower whose income decreases may report the change and ask RD to determine whether the decrease entitles the borrower to additional payment subsidies.
- Agreements are typically two year agreements but can be a shorter term if needed to accurately calculate income.

# CALCULATING PAYMENT ASSISTANCE:

The amount of payment assistance granted is the **lesser of the difference between:**

- The annualized promissory note installments for the combined RHS loan and eligible leveraged loans plus the cost of taxes and insurance less twenty-four percent of the borrower's adjusted income, or
- The annualized promissory note installment for the RHS loan less amount the borrower would pay if the loan were amortized at an interest rate of one percent.

## In other words:

Borrowers receiving payment assistance must pay to RHS the greater of:

24% of their adjusted monthly income or

A payment to RHS based on an equivalent interest rate of 1%.

Loan Number	Interest Rate	Term (Months)	Principal	Monthly Note Payment	Annual Note Payment
Initial Loan	3.75%	396	\$225,000.00	\$991.25	\$11,895.01
Total				\$991.25	\$11,895.01
Annual Deduction Amount					
Household Size (#)	4			Annual Income	\$50,000.00
Elderly/Disabled (Y/N)			\$0.00	Total Deductions	\$960.00
Dependents (#)	2		\$960.00	<b>Adjusted Income</b>	<b>\$48,040.00</b>
Child Care				Annual Real Estate Tax	\$2,000.00
Medical			\$0.00	Annual Property Insurance	\$900.00
<b>Total Deductions</b>			<b>\$960.00</b>		

**Option 1**

PITI at Note Rate	\$1,232.92
24% of Adjusted Income	\$980.80
Difference	<b>\$252.12</b>

**Option 2**

Note Payment	\$991.25
Monthly 1% Payment	\$667.31
Difference	323.94
with insurance and tax	
Total pymt	909.31

Loan	Initial Loan	Subsequent Loan 1	Subsequent Loan 2	Total
Monthly Payment Assistance	<b>\$252.12</b>	\$0.00	\$0.00	\$252.12
Monthly Installment (P&I)	\$739.13	\$0.00	\$0.00	\$739.13

Total payment w/ tax and ins: approx. \$981  
 Same loan at current rates and terms would be over \$1,449.85 a month



Loan Number	Interest Rate	Term (Months)	Principal	Monthly Note Payment	Annual Note Payment
Initial Loan	3.75%	396	\$240,000.00	\$1,057.33	\$12,688.01
Total				\$1,057.33	\$12,688.01
Annual Deduction Amount					
Household Size (#)	4			Annual Income	\$50,000.00
Elderly/Disabled (Y/N)			\$0.00	Total Deductions	\$960.00
Dependents (#)	2		\$960.00	<b>Adjusted Income</b>	<b>\$48,040.000</b>
Child Care				Annual Real Estate Tax	\$2,000.00
Medical			\$0.00	Annual Property Insurance	\$900.00
<b>Total Deductions</b>			<b>\$960.00</b>		

**Option 1**

PITI at Note Rate	\$1,299.00
24% of Adjusted Income	\$980.80
Difference	<b>\$318.20</b>

**Option 2**

Note Payment	\$1,057.33
Monthly 1% Payment	\$711.80
Difference	345.53
with insurance and tax	
Total pymt	953.80

Loan	Initial Loan	Subsequent Loan 1	Subsequent Loan 2	Total
Monthly Payment Assistance	<b>\$318.20</b>	\$0.00	\$0.00	\$318.20
Monthly Installment (P&I)	\$739.13	\$0.00	\$0.00	\$739.13

Total payment w/ tax and ins: approx. \$981  
 Same loan at current rates and terms would be over \$1,480.71 a month

Initial Loan	Loan Number	Interest Rate	Term (Months)	Principal	Monthly Note Payment	Annual Note Payment
		3.75%	396	\$275,000.00	\$1,211.53	\$14,538.34

		Annual Deduction Amount			
Household Size (#)	4			Annual Income	\$50,000.00
Elderly/Disabled (Y/N)			\$0.00	Total Deductions	\$960.00
Dependents (#)	2		\$960.00		
Child Care				Adjusted Income	\$49,040.00
Medical			\$0.00		
Total Deductions			\$960.00	Annual Real Estate Tax	\$2,000.00
				Annual Property Insurance	\$900.00

Option 1	
PITI at Note Rate	\$1,453.20
24% of Adjusted Income	\$980.80
Difference	\$472.40

Option 2	
Note Payment	\$1,211.53
Monthly 1% Payment Difference	\$815.61
with insurance and tax	\$395.92
Total pymt	1,057.61

Loan	Initial Loan	Subsequent Loan 1	Subsequent Loan 2	Total
Monthly Payment Assistance	\$395.92	\$0.00	\$0.00	\$396.92
Monthly Installment (P&I)	\$815.61	\$0.00	\$0.00	\$815.61

Total payment w/ tax and ins: approx. 1057.61

Same loan at current rates and terms would be over \$1,718 a month



Initial Loan	Loan Number	Interest Rate	Term (Months)	Principal	Monthly Note Payment	Annual Note Payment
		3.75%	456	\$275,000.00	\$1,132.31	\$13,587.73

	Annual Deduction Amount	
Household Size	4	
Elderly/Disabled (Y/N)		\$0.00
Dependents (#)	2	\$960.00
Child Care Medical		\$0.00
<b>Total Deductions</b>		<b>\$960.00</b>

Annual Income	\$35,500.00
Total Deductions	\$960.00
Adjusted Income	\$51,040.00
Annual Real Estate Tax	\$2,000
Annual Property Insurance	\$900.00

Option 1

PITI at Note Rate	\$1,373.98
24% of Adjusted Income	\$690.80
Difference	\$683.18

Option 2

Note Payment	\$1,132.31
Monthly 1% Payment	\$725.14
Difference	\$407.17
with insurance and tax	
Total pymt	967.14

	Initial Loan	Subsequent Loan 1	Subsequent Loan 2	Total
Loan Monthly Payment Assistance	\$407.17	\$0.00	\$0.00	\$407.17
Monthly Installment (P&I)	\$725.14	\$0.00	\$0.00	\$725.14

Total payment w/ tax and ins: approx. \$967  
 Same loan at current rates and terms would be over \$1,718 a month

	Loan Number	Interest Rate	Term (Months)	Principal	Monthly Note Payment	Annual Note Payment
Initial Loan		3.75%	456	\$225,000.00	\$926.44	\$11,117.24

		Annual Deduction Amount		
Household Size	4		Annual Income	\$35,500.00
Elderly/Disabled (Y/N)		\$0.00	Total Deductions	\$960.00
Dependents (#)	2	\$960.00	Adjusted Income	\$34,540.00
Child Care			Annual Real Estate Tax	\$2,000.00
Medical		\$0.00	Annual Property Insurance	\$900.00
Total Deductions		\$960.00		

Option 1

PITI at Note Rate	\$1,168.10
24% of Adjusted Income	\$690.80
Difference	\$477.30

Option 2

Note Payment	\$926.44
Monthly 1% Payment	\$593.30
Difference	\$333.14
with insurance and tax	
Total pymnt	\$835.30

	Initial Loan	Subsequent Loan 1	Subsequent Loan 2	Total
Loan				
Monthly Payment Assistance	\$333.14	\$0.00	\$0.00	\$333.14
Monthly Installment (P&I)	\$593.30	\$0.00	\$0.00	\$593.30

Total payment w/ tax and ins: approx. \$835.30  
 Same loan at current rates and terms would be over \$1,449.85 a month

# What's the Catch?



# SUBSIDY RECAPTURE:

- After a loan is closed, the subsidized portion of a borrower's monthly payment will accrue as a separate account. The Government pays this subsidy each month to help very low and low income households afford to own a home. This account is subject to being repaid or "recaptured" at the time a borrower sells or transfers the property to another owner, no longer occupy the property, or pays the loan in full.
- **The maximum amount of recapture due will be the lesser of the amount of subsidy received or up to 50 percent of the Adjusted Value Appreciation in the property.** The Value Appreciation is based on appraised value and/or sales price at time of sale, refinance, or when the principal and interest balances are paid in full. This value excludes any of the borrower's original equity or any value that resulted from eligible Capital Improvements that were made by the borrower. Borrowers who refinance their Rural Development loan and want to pay off the principal and interest balance, have the option to defer the final amount of Recapture due, or pay it off at closing.

Contact Numbers for more information....



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