



FINDING LOANS FOR RURAL CUSTOMERS

GETTING TO KNOW THE SECTION 502 PROGRAM

BY THAYER LONG

While the U.S. Department of Housing and Urban Development (HUD) gets a lion's share of the attention when it comes to affordable housing programs, for years the U.S. Department of Agriculture's (USDA) Rural Housing Service (RHS) has silently been working to provide homeownership opportunities to millions of Americans. In fact, RHS programs have helped finance new or improved housing to over 70,000 low-to-moderate-income families each year since its inception.

Traditionally, manufactured housing has flourished in rural areas that are largely underserved by site builders and developers who are unable or unwilling to provide affordable, unsubsidized housing for low- to moderate-income buyers. While in recent years manufactured housing has made inroads into more populated locales, rural areas continue to represent a large portion of the manufactured housing market.

Once known as the Farmers Home Administration, (FmHA), which was created in the 1930s to provide housing assistance in rural areas, the RHS offers a broad range of programs that assist in and encour-



age the expansion of rural homeownership, either through direct loans or loan guaranty programs. The RHS national office is located in Washington, D.C., but most of the programs are carried out through the USDA's Rural Development Offices. These offices administer the programs in each state or multi-state area.

In a time when every source of financing for manufactured and modular homes should be utilized, the Rural Housing Service's Section 502 Loan Guarantee Program and Section 502 Direct Loan Program are two excellent sources of financing that have, until now, been largely under-utilized by those looking to purchase a manufactured or modular home.

Once thought of as overly burdensome, the RHS has made great strides in recent years toward improving the process and eliminating obstacles that made utilizing the programs less than appealing.

SECTION 502 GUARANTEE AND DIRECT LOANS

The Section 502 Guarantee Loan program is a non-subsidized loan made for the construction or purchase of a single-family dwelling. Applications are filed with an RHS-approved lender, which is typically any VA- or FHA-approved lender. RHS provides the lender with a 90 percent guarantee against default. The loan amount can be up to 100 percent loan-to-value (LTV) ratio and in some cases the loan can also include closing costs. The Guarantee Loan program can be used for purchasers who have incomes that are 115 percent or less of the Area Median Income (AMI).

The Section 502 Direct Loan program is a subsidized loan made for the construction, purchase, and/or repair of a single-family dwelling. The loan is made through a local RHS-approved lender and is given directly to a consumer. Like the Section 502 Guaranty Program, the loan amount can be made up to 100 percent LTV, and can include closing costs. The program is limited to those consumers with low to very-low incomes.

Both programs can only be used for new homes purchased through an RHS approved dealer-contractor, or the purchase of an existing manufactured home as long as the home had been previously financed using an RHS loan. Both programs also require the homes be installed according to HUD's September 1996, *Permanent Foundation Guide for Manufactured Housing* (www.huduser.com).

As mentioned earlier, the RHS programs were once thought to be burdensome and difficult to obtain approvals. However, many retailers and developers have enjoyed recent success in using the program, in part due to reforms made in the program operation, as well as the fact that both programs are well funded and underutilized. In 2003, RHS was authorized to originate almost \$1.4 billion for the 502 Direct Loan Program and virtually \$3 billion for the Section 502 Guarantee Program.

Doug Gorman, a retailer in Tulsa, Oklahoma, has been working with the USDA's housing programs. "Both Section 502 Direct Loan and Loan Guaranty Programs

are excellent programs to get involved with," says Gorman.

"Many of the obstacles once associated with the programs that made them undesirable have been eliminated. Now, the process and paperwork is no worse than working according to the FHA guideline or Fannie Mae and Freddie Mac," he added.

Dan Rolfes, president of Holiday Homes in Cincinnati, Ohio, who also has experience with the Section 502 Guaranty Program agrees. "The USDA used to have separate appraisal requirements which often made it difficult to get deals done. Now that barrier has been eliminated and the programs have become much more user-friendly."

Deb Thompson, Manager of Housing Financial Group LTD., also indicates the approval process has been greatly improved. "Once the lender has certified that the applicant is eligible, it often takes less than 48 hours to get final approval from USDA. A marked change from the way the process used to be."

While there are still a few twists and turns involved with using this program—for instance the direct loan program does not provide for construction loans so retailers and developers must be prepared to carry the costs until the project is complete—there is nothing about the program which precludes it from financing a manufactured or modular home.

Says Gorman, "You will need to work closely with your USDA state or regional office. Home specifications, such as foundation types, can vary by state or region and it is important you have as much information as possible before you begin this type of project."

The RHS has made great strides over the past six years to streamline and simplify the loan process, with additional changes currently underway to make it even better.

"Without a doubt, retailers and developers would be smart to invest time and effort in familiarizing themselves with the Section 502 Direct Loan and Loan Guaranty programs," said Rolfes.

"This is a great opportunity for the manufactured and modular housing industries to provide rural Americans with safe, decent, and affordable housing and help build the American dream of homeownership," he added. ■