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**Introduction to
502 Loan Packaging Program
504 Home Repair Program**

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Your Presenter Today





Jairo Mercado
Rural Development Specialist - Housing
Certified HUD Housing Counselor
Certified Financial Education and Credit Coach

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502 Program Basics



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502 Direct Single Family Housing Guidance

7 Code of Federal Regulations (CFR) 3550
Handbook-1-3550
Administrative Notices (AN)
Procedure Notices (PN)
Unnumbered Letters (UL)
Forms



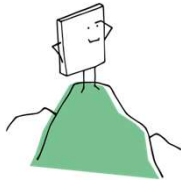
Applicable Rural Development (RD) Instructions

1924-A "Planning and Performing Construction and other Development"
1924-C "Planning and Performing Site Development Work"
1901-E "Civil Rights Compliance Requirements"
1970 series "Environmental"



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502 Program Overview



- Serves: Very-Low income (VL) and Low-income applicants
- Direct Loan from Rural Development (not a guarantee)
- Property must be in a rural area and meet program requirements



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502 Program Overview, (Cont.)

- Typically, No Down Payment required
- Payment Assistance makes the payments affordable
- Some closing costs may be included in the loan, up to the appraised value
- Private Mortgage Insurance (PMI) not required



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Living with Family – Payment Shock

- If the applicant's projected housing payment (PITI) is more than double their current housing expense, this is considered a **payment shock**
- RD can not approve this loan if there are any additional risk layering without **STRONG JUSTIFICATION**
- Even without additional risk layering, the applicant needs to have demonstrated ability and willingness to repay the loan
- If the applicant is living with family, it may be difficult to demonstrate ability and willingness to repay the loan



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Addressing Payment Shock



- Applicants can demonstrate ability and willingness by saving on a monthly basis the amount of the projected housing payment (PITI) and not use it
- If the applicant is paying rent to a family member and can document that it is paid regularly, RD **might** consider this as a housing expense for the payment shock calculation
(It **will not** be considered in the credit review)



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Addressing Payment Shock, (Cont.)

- If applicants start saving after initial intake or after housing counseling and/or homebuyer education, they might have 6-12 months of savings when the application is submitted to RD
- If the applicant also has credit issues or a high debt ratio, a payment plan can be created and documented using the savings



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Application Processing



- Applications received are processed on the date an order received
- If there is normal funding applicants will be issued a Certificate of Eligibility (COE)
- The loan will be funded based on the submittal of property information and items needed for underwriting



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Funds Availability

- Fiscal Year (FY) 10/1 – 9/30
 - 1st Quarter (Oct-Dec): maybe a continuing resolution (CR)
 - 4th Quarter (Jul – Sep): unobligated funds are typically pooled for redistribution
- Applications are accepted year-round
- Work with RD State Office



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Affirmative Fair Housing Marketing Plans (AFHMP)



- Is required when marketing/packaging/building 5 or more housing units in the same subdivision
 - Reflect underserved demographics based on census tract data,
 - Market to/attract applicants least likely to apply
- RD approves the plan which remains in effect until all properties under the plan are sold
- Is successful when community contacts are made and those least likely to apply, do



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502 Loan Terms

- Standard term - 33 years
 - Loans may be for a shorter period, but no subsidy if the term is less than 25 years
- When income eligible and needed - may be 38 years
 - Use 38 years if income eligible to reach max loan; adjust when the loan amount is known if longer-term is not needed
- Manufactured Homes = 30-year max



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502 Loan to Value Ratio



- Typically, 100%
- New construction homes/spec homes can only have 90% loan to value if construction quality is not documented
- Over 100% when a soft, silent, or forgivable subordinate affordable housing product (for allowable purposes) will be placed as a lien



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Income Limits and Area Loan Limit

- Income Limits are on a per-county basis and similar to HUD except USDA uses income banding
 - 1-4 member households = 4 person
 - 5-8 households = 8 person
- Maximum loan amount is based on county's Area Loan Limit, Appraised Value and amount the applicant can afford

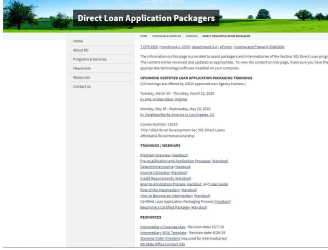


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Direct Loan Application Packagers Website

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


- Upcoming Certification Training
- Informational and Refresher Trainings & Webinars
- Resources
- Links to Regulations, the Handbook, eForms, etc.



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Packaging Responsibilities




- Stay informed of RD 502 regulations
- Market the 502 program in your area
- Intake, preliminary eligibility, and assembly of complete applications (per HB-1-3550, Attachment 3-A)
 - Phase 1: Eligibility
 - Phase 2: Property
- Submit loan packages to an intermediary for quality assurance review/submittal to RD

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Certified Packaging Role – Phase 1 Packaging

- Initial Intake – determine likelihood of eligibility based on undocumented information
- Income Eligibility – Verify based on 3rd party documentation for program eligibility
- Credit Analysis – Review per USDA regulations and make recommendation
- Other Program Requirements
- Compile and Submit



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Certified Packaging Role – Phase 1 Packaging, (Cont.)



- Intermediary Reviews – if additional items are needed, the intermediary will request them
- Intermediary submits to RD for review and if approved, Certificate of Eligibility to issued
- Applicant starts looking for a home to purchase



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Certified Packaging Role – Phase 2 Property Submission

- Compile property documents
- Assist applicant with review of inspection report and addressing health and safety items
- Prepare cost estimate for repair items not covered by seller
- Submit to the Intermediary for review
- The Intermediary reviews and submits to RD for review and underwriting



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Credit



The Equal Credit Opportunity Act (ECOA)

- Prohibits credit discrimination on the basis of sex, race, marital status, religion, national origin, age, or income from public assistance
- *Most RD programs qualify as special purpose credit assistance programs and as such RD may request information to determine eligibility regarding marital status, income from alimony, child support, and separate maintenance*
- Creditors may not use this information to discriminate when determining eligibility for RD loans, benefits, and services



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Credit

- No minimum credit score is required
- If the applicant has a 640 score or higher and No Significant Delinquencies, the applicant qualifies for a streamlined credit review
- If the score is under 640, a full credit analysis is completed using Indicators of Unacceptable Credit



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Credit



- If the score is under 640, a landlord verification is required (if it is possible to obtain)
- A minimum of three trade lines are reviewed and alternative/nontraditional credit with 12 months of consecutive history can be used, if three trade lines are not included in the credit report
- For an account to be counted as a trade line the applicant must be the responsible party and not just an authorized user



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Challenge of Student Loans

- It can benefit the applicant to apply for the Income-Driven-Repayment Program. There are pros and cons to doing this, but it is typically better than Forbearance or Deferment
- This would enable them to meet one of the four requirements, giving them a lower amount to use in the total debt ratio



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Credit - Student Loans



- If Deferred or in Forbearance – RD uses the higher of:
 - Monthly payment as shown on TMCR
 - or
 - .50% of the loan balance(s)
- If in Repayment – use the actual payment - **(If all 4 criteria below are met)**
 - Loan is in repayment status
 - Credit Score is 640 or higher
 - No indicators of Significant Delinquency
 - Payment Shock of 100% or less



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Becoming a Certified Packager

- Sign up with an intermediary in your state/states
(if no intermediary, contact the RD State Office)
- Within 12 months of signing up
 - Complete Agency-approved course
(*RETAIN CERTIFICATE OF COURSE COMPLETION - as evidence*)
 - Successfully pass the corresponding test
(*RETAIN SCORE NOTIFICATION - as evidence*)



<https://www.rd.usda.gov/sites/default/files/RD-SFH-IntermediaryMap.pdf>



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Becoming a Certified Packager, (Cont.)

- Meet eligibility requirements:
 - At least one year of affordable housing, loan origination, and/or housing counseling experience (resume)
 - Be employed by a qualified employer



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Roles



- **Certified Packaging Body**
 - Markets the 502 program and works with potential applicants
 - Agency-certified loan application packagers who are employed (as an employee or independent contractor) by a **Qualified employer**
- **Intermediaries**
 - Provide assistance to packagers
 - Perform quality assurance reviews
 - Submit complete application packages to RD via eForms
- **RD**
 - Determines eligibility and underwrites



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Qualified Employer

- Nonprofit
- Public Body
- Tribal Housing Authority
- State Housing Finance



An agency/entity that is engaged in affordable housing



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Packaging Responsibilities



- Stay informed of RD 502 regulations
- Market the 502 program in your area
- Intake, preliminary eligibility, and assembly of complete applications including a complete RD Worksheet for Computing Income and Maximum Loan Amount Calculator (4A/The Calculator)
 - Phase 1: Eligibility
 - Phase 2: Property
- Submit loan packages to the intermediary for quality assurance/review/submittal to RD



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Community/Organization Benefits of USDA 502 Direct

- Homeownership is affordable for a much larger number of very low and low-income applicants
- Limited resources for down payment assistance and/or affordability gap financing go much further when using 502 Direct
- Certified Packaging fee for applications that close
- Certified packagers working locally to assist applicants



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Certified Process Packaging Fee



- Fees per HB-1-3550, Attachment 3-A
- Shared when an intermediary is involved
- Packaging fee may be paid by:
 - Applicant / Seller contribution
 - Gift Funds/Down Payment/Closing cost assistance
 - May be included in the loan if the applicant has repayment ability and appraisal allows it



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Permissible Packaging Fees

Packaging Type	Permissible Packaging Fee	Regulated by 7 CFR Part 3550	Eligible Loan Purpose?	Access to National Office Reserve?
Certified Packaging Body Via An Intermediary	Up to \$2,000 split between certified packaging body and intermediary	Yes 3550.52 (d)(6) and 3550.75	Yes	Yes
Certified Packaging Body Without An Intermediary	Up to \$1,750	Yes 3550.52 (d)(6) and 3550.75	Yes	No
Intermediary Acting As Certified Packaging Body	Up to \$1,750	Yes 3550.52 (d)(6) and 3550.75	Yes	Yes
Approved Non-Certified Application Packager	Up to \$750	Yes 3550.52 (d)(6)	Yes	No
Other Packaging Arrangements	Not regulated and discouraged when a fee is charged	No	No. Agency reviews impact of fee and determines if it adversely impacts applicant	No



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Example: Paying the Fee

Transaction Details:

Purchase Price: \$250,000
 Seller agreed to pay up to \$3,000 in closing costs
 Appraised Value \$250,000
 Applicant has \$3,000 on hand for closing costs

Closing Details:

Purchase Price: \$250,000
 Title and Legal Fees \$ 2,000
 RD Loan Fees* \$ 1,000
 (*appraisal, tax service fee, initial escrow, etc.)
 Packaging Fee \$ 2,000
 Total closing Costs \$ 5,000
 Seller pays \$ (3,000)
 Applicant pays \$ (2,000)

What changes if:
 The appraised value = \$251,000?
 No seller contributions?



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Income Limits and Area Loan Limit

- Income Limits are on a per-county basis and similar to HUD except USDA uses **income banding**
 - 1-4 member households = 4-person income limit
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- Maximum loan amount is based on the County's Area Loan Limit, Appraised Value, and Amount the applicant can afford

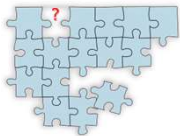


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Recommended Components of a 502 Direct Packaging Program

Creating a Pipeline

- Outreach
- Housing/Credit Counseling (optional yet extremely helpful)
- Knowledge of the Local Housing Market
- Knowledge of Local Down Payment Assistance Programs



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Realistic Expectations

Budget Demands of Low and Very-Low Income Applicants

- High rental cost = cost burdened applicants
- Student Loans
- Credit/Debt Culture = low credit scores and high debt ratios
- Payment Shock for applicants living at home with family



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Organization Budget Expectations



- Packaging fees are only paid for loans that close, at the time of loan closing
- This results in several months of packaging before the first loans reach closing
- Nonprofits shouldn't expect to receive any packaging fees for 9-12 months after the packaging has started



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Budget Expectations - # of Closed Loans

- This varies for each nonprofit
- The expectations that should be taken into consideration are:
 - Area serviced
 - Outreach and resulting pipeline of applicants
 - Homebuyer Education and Housing Counseling – short and long-term support
 - Program design
 - Staff capacity



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Budget Expectations – cont.



Assuming a new program but with an established pipeline from other existing programs.

- High volume packager –
2 applications packaged per month (24 annually)
 - 18 receive eligibility in 1st year
 - 10 close within the 1st year
 - 10 x \$1,525 = \$15,250 packaging fees
(in this example the intermediary shares \$475.00 of the \$2,000.00 max fee)



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Developing the Required Capacity

- Partnerships for outreach, homeowner education, housing counseling
- Developing the 1-year experience
 - Housing Counseling
 - Partnering with existing packager
- Required training and online exam



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Sample Timeline for Qualifying Applicants (without prior housing/credit counseling)



- 5-10% immediately qualify
- 15% qualify in 3-6 months
- 25% qualify in 6-12 months
- 25% qualify in 12-18 months
- 15% qualify in 18-24 months
- 10-15% qualify in more than 24 months



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Recommended Components of a 502 Direct Packaging Program

- Outreach
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504 Home Repair Program Basics



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Permissible 504 Packaging Fees

- The maximum loan is \$40,000, term of 20 years, and a fixed rate of 1%
- The maximum grant is \$10,000 (**lifetime limit per applicant**)
- Loans and grants can be combined for up to \$50,000 in assistance
- Grants must be repaid if the property is sold in less than 3 years

504 Packaging Type	Permissible Packaging Fee	Regulated by 7 CFR Part 3550	Eligible Loan and/or Grant Purpose?
Public and Private nonprofit organizations that are tax exempt under the Internal Revenue Code	Up to \$750	Yes 3550.102(d)(5)	Yes
Other packaging arrangements	Not regulated and discouraged when a fee is charged	No	No. In addition, the Agency will review the impact of the fee to the applicant and will make the determination if it adversely affects their qualification.

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Who may apply for this program?

- Be the homeowner and occupy the house
- Be unable to obtain affordable credit elsewhere
- Have a household income that does not exceed the very low limit by county
- For grants, be age 62 or older



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How may funds be used?

- The Section 504 Home Repair program provides loans to very low-income homeowners to:
 - repair, improve, or modernize homes or remove health and safety hazards
- Grants to elderly homeowners must be used to remove health and safety hazards



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