

# **Financing an EI home through government programs**

*by J. Camphill*

The United States has a number of federal and state programs to help people with disabilities and a modest income finance a home. Some programs work both for buying an existing home, as well as for building one.

It may take a substantial effort to find out what programs are available to you, in your location and situation, as there doesn't seem to be a simple guide to these programs. Each state has its own programs, with its own rules, and the federal programs only cover certain areas of certain states. The rules also tend to change over time, especially the limits on income and loan amounts. They all have income limits, but that limit can vary substantially from program to program. There are programs specifically for low income, very low income and for moderate income households (the actual numbers vary with location, family size and year). There is usually a waiting list for these programs. It can be a year or more.

In some cases, it may be possible to qualify for both a federal and a state program.

Places to start looking for information are the web sites and offices of local organizations and agencies, such as:

- U.S. Department of Agriculture, Rural Development division (look in the phone book under federal agencies)
- Department of Economic Security (or similar state social service agency in your state. Look in phone book under state agencies.)
- U.S. Housing and Urban Development (look in phone book under federal agencies)
- Independent Living Centers and other disability support organizations

When inquiring, always ask if they know of other programs that may be available to you.

## **The U.S. Dept. of Agriculture Rural Development programs**

Some EIs have received funding through the U.S. Department of Agriculture's Rural Development division's programs. One is called the Section 502 Home

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Ownership Loan Program (formerly the Farm Home Loan program), but they have other programs as well.

The USDA-RA Home Ownership Loan program provides mortgage financing for low and very-low income people in the nine most rural states of the U.S. And only in the really rural areas of those states. They do not finance homes in large cities, but sometimes they do finance in areas not very far from a city.

This program can be used either to buy an existing home, or to build one. It will finance a mobile home, but only a brand new one, which rarely would be suitable for someone with MCS.

There is usually a waiting list. The priority you receive on the waiting list depends on your circumstances at the time you file. People who are veterans, disabled, live under unsanitary conditions, etc., are placed higher on the list.

You must be unable to obtain a conventional mortgage, or other financing, to be considered. But you must have sufficient income to make the monthly payments.

The loans are regular mortgages, set with the going market rates, but with modified terms to lower the payments. The payments are tailored so they do not exceed a certain percentage of your income. It is not a grant program, you will still owe the full amount borrowed, but they provide easier terms. One way they may do that is to extend the loan for more years, such as 33 years or even longer. They may also subsidize the monthly payments, so your interest can be as low as one percent.

This subsidy is not free. It must be paid back when you sell or refinance the house. If you refinance, up to 25% of the subsidy amount may be forgiven, so you only have to pay 75% of the subsidy amount. You will always still owe any unpaid principal. It is possible that the loan actually grows larger over time and you will never get out of the debt. This will make it much harder to move later, as you then will have to pay off the loan when selling the house, and the house may not be worth as much as the loan.

This is a serious consideration for someone with MCS or EHS. Someone may move in next door and start burning trash, or a cell tower may be erected nearby. You may not be able to move. The program does not allow you to move and lease the house to someone else.

The program may require you to have a co-signer on the loan. The requirements for the co-signer are stricter, as he or she must be able to qualify for the full loan amount on regular terms, i.e., the co-signer must be able to borrow that much at a

normal bank, on normal terms and conditions. The co-signer can be anyone, without any income limits. In fact, it is to your benefit to have a co-signer with a good income. That will allow you to borrow more, as they consider both your incomes together when qualifying for the loan.

You will usually be required to provide a modest down payment, perhaps around \$3,000. In some cases none is required.

There will be a price cap on the property you can buy or build. This price cap is set by local standards and you cannot exceed that amount, even if you also get money from another source.

For example: The USDA-RA says they have approved you for a loan of \$120,000, and that the maximum allowed property value (the price cap) is \$150,000. Say you find a great house that costs \$160,000 and your parents offer to put a mortgage on their house to give you the missing \$40,000. It won't work. Even though you have the money, the house is above the price cap of \$150,000.

There are a number of restrictions on the property itself, though in some cases it has been possible to get exemptions with a note from a doctor.

Examples of restrictions are:

- It must be on a publicly maintained road (paved or regularly scraped). An EI may prefer a more remote road, with less traffic and development.
- The lot size must be modest, which here in Arizona is typically interpreted as one acre. Living in a neighborhood with larger lot sizes (say five acres), helps greatly with toxic drift from clothes dryers, pesticides, etc.
- The house must be modest, with no fancy features.

There are other restrictions as well.

Borrowers on these programs will be re-qualified regularly, perhaps every two years, to ensure that your financial situation has not improved. Then a detailed form must be submitted with income, medical expenses, tax forms, etc. They may audit you, and demand to see copies of actual receipts for medical expenses. The terms of the mortgage may be adjusted after each re-qualification, based on your current income and medical expenses (for disabled borrowers).

You may leave the program voluntarily, or be forced out. In either case, the remainder of the loan plus the subsidy will be due, perhaps with a 25% discount

on the subsidy amount.

If your financial situation improves to the point where you can qualify for a regular mortgage, they may force you to obtain one and pay off the loan with the USDA-RA.

If you break their rules, they may bounce you out, also. Some of their important rules are:

- it must be your primary residence
- you cannot rent it out
- you can have house mates, but everyone in the household must submit their income information and be qualified under the program (with the exception of a caretaker).

### **Building a house with USDA-RA financing**

It is extremely stressful and cumbersome to build a house with USDA-RA financing. There is a lot of legwork involved, which you must be able to do, or have someone trusted do for you. It has been done, but it was not easy.

The USDA-RA program administrators may apply various forms of pressure to get the project finished, under tight deadlines, once they decide to fund it (i.e. your application surfaces at the top of the waiting list). It is essential that you are ready ahead of time when this happens, as you will then need to have:

- land under contract
- house plans for that specific lot ready to submit to the local zoning department
- a builder on a *fixed* price contract, who is also willing to post a surety bond.

Finding a builder who is willing to build an EI house on a fixed contract price can be hard. The many specifications necessary in the bid papers will be intimidating to most builders, and they may grossly inflate their bid to make sure their expenses are covered. Few contractors will be willing to post a surety bond. It can take several months to find a contractor, and you may have to go through multiple rounds of bidding.

The builder will have to sign two contracts: one with the owner (you) and another with USDA-RA. This contract will state how long it will take to build the house. Make sure to leave plenty of room there, as any time over the limit will cost you both interest and headaches.

This program does not allow for building ancillary structures, such as a garden shed, a carport or fencing. It did not require termite treatment, however.

**Disclaimer**

This document is a compilation of some people's experiences. Actual rules vary with location and over time. This document is not a complete list of what you need to know, and not a substitute for your own thorough investigation of any program you may apply for.

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