

# *USDA Loan Approval Process: 2024 Guide*

## **How USDA loan approval works**

Once an obscure loan program, USDA loans are now popular with home buyers who might have gone with an FHA loan.

Whereas FHA requires 3.5% down, USDA requires no down payment whatsoever — and mortgage insurance is cheaper and interest rates often lower.

But many home buyers wonder how the USDA loan approval works. Fortunately, getting one is a lot like getting any other loan.

## **How a USDA loan works**

**USDA home loans** are backed by the US Department of Agriculture (hence the name) to promote economic development in rural areas of the U.S.

When people own homes, they purchase home-related goods and services and tend to stay in the neighborhood longer.

Homeownership stabilizes the local economy and community.

But getting this guaranteed loan doesn't mean you have to search out a government office to apply. Lenders around the country are endorsed by USDA to approve these loans.

If you can get an **FHA loan** or **conventional financing** at a certain lender, chances are it offers USDA as well.

## **How long does USDA loan approval take?**

Depending on your situation, USDA loan approval can take several weeks to over a month — generally, 30-60 days. Your loan officer should be able to give you a ballpark time frame.

Here's a brief overview of the USDA loan approval process and how long each step can take (though keep in mind these times vary a lot based on the lender's workload, your application, and other factors):

1. Apply with a USDA-approved lender (30 minutes)
2. Supply the lender with income, asset, and credit history information (1 day)
3. Lender issues a preapproval (3 days to 1 week)
4. You find a home in a **USDA-eligible geographic area** (timing depends on the home market)
5. Lender checks the appraisal and any other items needed (1 week)
6. Lender sends the file to your state's USDA office for approval (1 day)
7. USDA completes a final "sign-off" (a few days to a few weeks)
8. The lender completes underwriting and final approval
9. Lender sends closing documents to the escrow company, which you sign (1 week)
10. After signing on closing day, the house is yours

To the applicant, getting a USDA loan will "feel" just like getting any other mortgage.

### **USDA loan approval process**

Qualifying for a USDA home loan is a lot like any other type of loan, except with an extra step: Your loan application must be approved by the USDA.

Here's an overview of the USDA loan approval process:

- Find and prequalify with a USDA-approved lender
- Apply for preapproval
- Find a home in an eligible rural area
- Make an offer
- Go through the underwriting process
- Close on your new home loan

## **1. USDA mortgage lender prequalification**

Prequalification with a USDA-approved lender is an important first step in the loan application process.

Not all mortgage providers participate in the USDA loan program. And borrowers who take time to find one that specializes in USDA mortgage loans will undoubtedly find the expertise beneficial, especially during the underwriting and approval processes.

When you prequalify for a USDA home loan, your lender will give you a general estimate of how much you can borrow and whether you meet eligibility requirements.

Your loan officer will most likely want to know your desired loan amount, monthly income, and monthly debts. They may also pull your credit score at this early prequalification stage, too.

### **Credit score**

Your credit score is a deciding factor in determining the interest rate on your loan — the better your credit score, the better your interest rate, and the lower your mortgage payments.

So, if improving your credit history can save you money on your loan's monthly payments, then prequalification will give you time to fix your credit.

While there is no official minimum credit requirement to qualify for a USDA home loan, most approved lenders are looking for a FICO score of at least 640.

Once your lender has confirmed eligibility, you're set up for the next step in USDA loan approval process: preapproval.

## **2. USDA home loan preapproval**

Preapproval is a more rigorous examination of your finances when your lender establishes your debt-to-income ratio (DTI) and verify exactly how much you can borrow against the purchase price of a new home.

Your lender will also confirm your household income using your financial documentation, including:

- W-2 forms, 1099 forms, and tax returns
- Pay stubs
- Bank statements and asset statements
- Social security number, photo ID, and other basic financial details

Getting preapproved for a loan is a crucial step before you attend open houses and go house hunting. Most sellers and real estate agents want to know they're dealing with a serious buyer who has a lender preapproval letter in-hand.

### **3. Find a home in an eligible area**

As the name itself implies, the USDA rural development loan promotes homeownership in eligible rural areas for both first-time home buyers and established borrowers alike.

However, in addition to **property requirements**, USDA home loans also have **income limits**.

#### **USDA property eligibility requirements**

USDA guidelines require that all properties be in a qualifying rural area.

Yet, many first-time home buyers are surprised to see just how many homes are eligible. An estimated **97% of the U.S. land mass** is considered rural by the USDA.

Here are the general property eligibility requirements borrowers can expect:

- Only single-family housing allowed
- Home must be used as your primary residence
- Home must be located in an eligible area

## **USDA income eligibility**

In addition to property eligibility, your household income also needs to fall within USDA income limits.

Keep in mind, income limits vary according to the number of people in your household and the median income where your USDA-approved home is located.

As an example, the annual income limits for home buyers in Twin Falls, Idaho and Poughkeepsie, New York differ by nearly \$23,000 in 2024.

### **Twin Falls County, Idaho**

- 1-4 person household: \$91,900
- 5 or more person household: \$121,300

### **Poughkeepsie-Newburgh-Middletown, New York**

- 1-4 person household: \$114,850
- 5 or more-person household: \$151,600

So, if you're house hunting near Twin Falls, then your household income cannot exceed the median income of your neighbors, which the USDA estimates to be \$91,900.

[Explore USDA income limits for your area \*\*here\*\*.](#)

In addition to working with lenders who are experienced with USDA loan origination, using real estate agents with a similar background will help you quickly and easily find eligible properties.

## **4. Make an offer**

Once you find your dream home, then you'll work with both your real estate agent and lender to make an offer.

If the seller accepts your offer, then you'll sign a purchase agreement, and your lender will order a home appraisal. The appraisal is different from a home inspection, and it's a requirement for USDA loan approval.

The appraiser will establish the market value of your new home and ensure that it meets USDA standards.

Your lender will want to know that the appraised value of the home does not **fall below the purchase price**.

If there are any issues with either the appraised value or the property not meeting USDA standards, they must be remedied before closing.

## **5. USDA loan underwriting process**

Once you've signed a purchase agreement with the seller, you are under contract, and your loan originator will begin underwriting your new mortgage.

Be aware that the underwriting process for USDA home loans can take longer than the process for traditional mortgages. This is because of the final step in the USDA loan approval process.

### **Allow extra time for your USDA loan process**

There is only one extra step in getting your USDA loan approved, compared to any other type of loan. That is the extra check by a USDA office in your state.

With an FHA loan, VA loan, or conventional loan, the lender can completely approve and close the loan on its own. USDA, however, requires a hands-on check by U.S. Department of Agriculture staff.

The process typically only takes about a day but could potentially take multiple days or even weeks depending on the backlog of applications at your local USDA office.

Check with your lender before agreeing to a closing date. The lender should know how long your local USDA department currently takes for final sign-off. Don't be unrealistic about your closing date.

## **6. Closing**

It's the big day. During closing, you will sign loan documents, verify all closing cost funds have been properly received into escrow, and prepare to get the keys to your new home.

## **USDA Direct Loan approval process**

As its name suggests, USDA Direct Loans are underwritten directly by the USDA, rather than a mortgage lender.

Direct loans are guaranteed loans that are designed to help low-income families and very-low-income families realize their goals of becoming homeowners — by offering payment assistance to increase a household's repayment ability.

According to the **USDA**, to qualify for a direct loan, buyers need to:

- Be without safe and sanitary housing
- Be ineligible for a loan from other providers on terms and conditions that can be reasonably met
- Agree to occupy the home as their primary residence
- Meet citizenship or eligible noncitizen requirements.

Furthermore, direct loans also carry property eligibility requirements, including:

- Home must be modest in size for area
- Home value must not exceed the market value of the applicable area loan limit
- Home may not have in-ground swimming pools
- Home may not be designed for income-producing activities (like rentals)

Even though USDA Direct Loans are underwritten by the USDA, home buyers can still expect a 30-60 day timeline for loan approval.