

# *USDA Loan Requirements: Guide for First-Time Home Buyers*

## **Is it hard to get a USDA loan?**

Contrary to popular belief, a **USDA loan** can be easier to qualify for than other types of mortgages.

“I’ve found that USDA-qualified buyers have very smooth transactions because the program is flexible, and no down payment is required. A USDA loan can be one of the best ways for someone to get into their first home.

If you earn a moderate income and you’re not buying a home in a big city, you might be eligible for this zero-down program.

## **USDA loan requirements for 2024**

The best-kept secret in mortgage lending right now is the USDA loan. Those who learn about it immediately understand that it’s usually preferable to conventional loans or FHA loans.

Why are USDA loans so great? For starters, they allow **no down payment**. And they have lower costs, too. Compared to an **FHA loan**, USDA mortgage rates are lower and mortgage insurance premiums are cheaper.

Fortunately, USDA loan requirements aren’t as restrictive as many home buyers imagine.

Contrary to popular misconceptions, working in the agricultural sector is not required to obtain a USDA loan. The main factors determining eligibility are your household size, location, and income.

## USDA loan requirements overview:

- **Location:** Must live in an eligible rural area
- **Credit score:** Usually 640 or higher
- **Income limits:** 115% of the area median income
- **Employment:** Steady, two-year work history
- **Debt-to-income ratio:** Usually 41% or less
- **Property:** Single-family primary residence
- **Loan-to-value:** Up to 100% (zero down)
- **Mortgage insurance:** Required on all USDA loans
- **Other guidelines:** U.S. resident, clean credit history

Before you dive in, explore these USDA loan requirements to learn whether you might be eligible.

### 1. “Rural area” requirement

The USDA mortgage program is backed by the U.S. Department of Agriculture and exists to promote homeownership outside of major cities. To make sure the program meets that goal, USDA has set requirements about where you can buy a house using its loan program.

To be a candidate for a USDA loan, you must purchase a home in a specifically designated “rural area” of the country. Per the USDA, these include:

- Locations with a population of 10,000 or less in areas that are “rural in character” or “in open country”
- Locations with a population of 20,000 or less not situated in a Metropolitan Statistical Area (MSA)

To find a property eligible for a USDA loan, you can visit the USDA’s [property eligibility site](#).

## 2. Minimum credit score

The USDA doesn't set a **minimum credit score** for its home loan program. But lenders get to set their own guidelines, and most require a FICO score of 640 or higher.

Remember that there's always more to credit than just your score. It's best to ask your lender what other credit history must be demonstrated, too. Things like a good past housing history and other good credit behavior shown on your credit report are always important.

## 3. Household income limits

USDA is one of the few mortgage programs that enforce income limits for borrowers. To qualify, your total household earnings must not exceed 115% of your area's median income (AMI). Keep in mind that household income refers to the earnings of all people living in the home, 18 years or older — not just the mortgage borrower.

You can use this [USDA income limits finder](#) to check the limit for your area.

## 4. Employment guidelines

Mortgage lenders want to know if you have a stable, reliable job and income to support your home loan payments going forward. The USDA loan, like most other home loans, generally requires a two-year work history for applicants.

"There is no set minimum period that an applicant must have worked for a particular employer. However, the lender must confirm the applicant's job for the previous two full years as well as the fact that their income has been steady," explains Solomon.

Typically, you must also be employed full-time. But you don't have to be a salaried, W-2 employee. **All sorts of income are eligible** for mortgage qualification.

Self-employed individuals are also considered, but forewarns that they may have a harder time getting approved if they can't verify income.

## 5. Debt-to-income ratios

Your **debt-to-income** ratio (DTI) is a key part of your mortgage application. This number shows the percentage of your monthly gross income devoted to paying down debt, which helps your lender determine how much you can afford for a mortgage payment every month.

“Once your income is verified by the lender, the USDA loan program targets maximum DTI ratios of 29% for housing and 41% for all recurring monthly expenses,” Schwartz continues. “This is a little more conservative than other loan programs but not a deal-breaker considering they provide up to 100% financing.”

Solomon points out that a 640-credit score typically allows a maximum DTI ratio of 41%, while a credit score of 680 or higher may allow a DTI ratio of up to 43%.

## 6. Property requirements

USDA also sets guidelines about what type of home you can buy using its loan program.

- You must occupy the home as a primary residence, meaning you’ll live there full-time. It must not be used as an investment property or second home
- The property must be a single-family home, condominium home, planned unit development home, modular home, or manufactured home
- The residence must provide between 400 and 2,000 square feet of living space
- The home must be structurally sound and pass an appraisal that complies with USDA property guidelines

In addition, the home must be a non-farm property that is typical in size for the area. **Manufactured homes** must meet certain eligibility requirements as well,” adds Schwartz.

## 7. Loan-to-value (LTV) limits

Most home loans impose **loan-to-value (LTV)** limits. These cap the amount you can borrow compared to your home's price. In other words, they require you to make a down payment so you're not borrowing 100% of the home's value.

The good news is that the USDA program will lend up to 100% of the value of the home, which means typical loan-to-value restrictions don't apply.

"The entire loan amount for the borrower may not exceed 102% of the appraised value of the property, for a maximum LTV ratio of 102%," Solomon says. "So long as your LTV does not exceed 102%, you may also finance closing costs like lender, title, escrow, attorney, and appraisal fees."

"However," he continues, "the appraised property value has to be higher than the contracted price at which you agree to acquire the property for closing costs to be bundled into the mortgage amount."

## 8. USDA mortgage insurance

Unlike conventional loans, USDA loans don't charge **private mortgage insurance (PMI)**. But the Department of Agriculture does impose its own upfront and annual fees to keep the program running.

"The [USDA] program requires you to pay a guarantee fee, which serves as a low-cost type of mortgage insurance. This fee is equivalent to 1% of your loan amount due upfront. Then, you also need to make monthly guarantee fee payments that are calculated as 0.35% of your loan amount divided by 12 months," says Schwartz. "This guarantee fee applies to all USDA loans whether or not you make a down payment."

The one-time guarantee fee is technically due at closing. But most USDA borrowers finance it into their loan amount, so they don't have to pay upfront.

## 9. Other USDA loan requirements

There are a few other USDA loan requirements that home buyers should take note of. For example, you must be a U.S. citizen or permanent resident alien to qualify for a USDA loan.

Your credit history matters, too. Be aware that you won't qualify for a USDA loan if you have been discharged from bankruptcy or if your home was foreclosed upon in the last 36 months, even if you have a credit score above 640.

Also, being sent to collections or having a housing history with even a single 30-day late payment may disqualify you from the USDA home loan program.

### Does USDA have loan limits?

The USDA loan program does not impose **loan limits**. That means you can buy a home at any price point, if you can qualify for the loan and afford the monthly payments.

Keep in mind that your maximum loan amount will be based on your income and DTI. If you have a lot of existing debt with high payments each month, you'll have less money left over for a mortgage payment. That leads to a lower loan amount.

**Current mortgage rates** also impact the amount you can borrow. Luckily, USDA mortgage rates are typically below-market, giving USDA borrowers more buying power.

Still, it's important to shop around for your lowest rate. Compare quotes from at least three USDA-approved lenders to make sure you're getting the best deal available.

## Why would a USDA loan get denied?

There are several reasons why a USDA loan might get rejected. One common reason is that the borrower fails to meet income requirements. Another common reason is that the property is in an ineligible area. And you may be denied if you have poor credit or inadequate collateral.

Other common red flags that can get you turned down for a USDA loan include insufficient employment history, low credit score, a **high DTI ratio**, or a past bankruptcy.

If you're having trouble getting approved for a USDA loan, other mortgage programs could offer a good alternative.

For example, **FHA loans** require only 3.5% down, allow lower credit scores starting at 580, and have no income limits or geographic requirements.

Similarly, conventional **conforming loans** require just 3% down payment and let you buy a home in any location. And conforming loan credit score requirements are lower than USDA's, starting at 620 rather than 640.

## How USDA loans work

A USDA loan is a government-backed mortgage that helps low-to-moderate-income buyers purchase homes in rural areas around the country. The goal of the USDA program is to boost homeownership and quality of life within small towns and rural communities that are eligible for this type of financing.

USDA loans have nearly unbeatable benefits for qualified borrowers.

No down payment is required, no cash reserves are needed, there are no loan limits, and credit guidelines are flexible. What's more, USDA mortgage rates are typically lower than FHA or conventional rates for a similar loan size.

These are all enticing advantages for first-time home buyers, many of whom lack the funds needed for a down payment. And, fortunately, USDA's definition of "rural area" is a lot more expansive than you might expect.

"USDA loans can only be used by homes in specified rural areas. That means you'll have to quit the busy city life for a more pastoral setting," explains Solomon. "But the good news is that several suburbs in or close to large cities fall under the USDA's expansive definition of 'rural.'"

### **Your next steps**

If a USDA loan sounds like a good fit for you, the first step is to get in touch with a lender and find out whether you qualify.