

ATTACHMENT 12-A
SUMMARY OF DIFFERENCES BETWEEN
SECTION 504 LOANS AND GRANTS

Note: *This attachment summarizes key requirements to assist the reader in comparing Section 504 loans and grants. It is not a comprehensive description of all requirements.*

Topic	Section 504 Loan	Section 504 Grant
Use of Funds	May be used to: (1) improve or modernize; (2) make dwelling decent, safe, and sanitary; (3) remove hazards. Cannot be used for acquisition or new construction. Specific prohibitions are listed in Paragraph 12.2 A.	May be used only to remove health and safety hazards or to make dwelling accessible to household member with disabilities.
Drug-Free Workplace	N/A	Applicants must certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant.
Credit Reports	Needed if loan > \$7,500, but no fee charged.	N/A
Age of Applicant	N/A	62 or older
Leaseholds	The property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note.	The remaining lease period must be at least 5 years.
Appraisals	Fee charged if appraisal completed. Appraisal performed by Agency employee or contractors if loan over \$15,000.	N/A
Maximum Assistance	\$20,000 outstanding at one time.	\$7,500 lifetime limit.
Security	If Section 504 loan is >or equal to \$7,500, a mortgage is required.	No security required.
Insurance	If indebtedness >\$15,000, property insurance is required. Flood insurance is required in Special Flood Hazard Areas (SFHA) > \$5,000.	Flood insurance is required in SFHA at grant approval for grants of >\$5,000.

ATTACHMENT 12-B
DIFFERENCES BETWEEN SECTION 502 AND SECTION 504 LOANS

Note: *This attachment summarizes key requirements to assist the reader in comparing Section 502 and 504 loans. It is not a comprehensive description of all requirements.*

Topic	Section 502 Loan	Section 504 Loan
PROGRAM PURPOSES AND PRIORITIES		
Program Purpose	Assist applicants who are not homeowners to become homeowners.	Assist current homeowners with necessary improvements and repairs.
Processing Priorities	Multiple priorities may apply. Applications that meet special criteria are processed immediately upon funding availability.	Applications for assistance to remove health and safety hazards receive priority processing.
LOAN PURPOSES		
Eligible Purposes	In general, funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling and provide related facilities for the borrower to personally occupy. No initial loans for repair of manufactured homes.	Remove health and safety hazards. Repair or remodel dwelling to make more accessible and useable for household members with a disability. General repairs to improve or modernize a home. Repair mobile or manufactured homes.
APPLICANT ELIGIBILITY		
Income	Applicant income must not exceed low-income limit at loan approval and must not exceed moderate-income limit at loan closing.	Applicant income must not exceed the very low-income limit at loan approval and closing.

Topic	Section 502 Loan	Section 504 Loan
APPLICANT ELIGIBILITY		
Credit Requirements	Credit history must demonstrate ability and willingness to pay. Costs for credit reports are charged to applicant.	The same criteria are used for evaluating a loan applicant's credit history. However, general credit requirements maybe less stringent than those for section 502 loans. Costs for credit reports are not charged to the applicant.
Asset Requirements	Applicants are required to contribute nonretirement assets above \$7,500 (\$10,000 for elderly), and available retirement funds in excess of applicable median income limit toward the purchase of the property. Exceptions can be made for households with high medical expenses.	Same as Section 502, except nonretirement assets include only assets that can be converted to cash within <u>90 days</u> .
Repayment Ability	Applicants must show repayment ability based on ratios.	Applicants must show repayment ability based on a budget. Applicants 62 and over who lack the ability to repay the entire amount of the loan may be eligible for grant funds.
Ownership	The applicant need not own the property. A leasehold must have an unexpired term of at least 150% of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian tribe, or Indian Housing Authority. No exceptions on ownership evidence.	The applicant must own the property. A leasehold must have an unexpired term of at least 2 years beyond the term of the mortgage. If standard evidence of ownership is unavailable, exceptions may be made.

Topic	Section 502 Loan	Section 504 Loan
PROPERTY REQUIREMENTS		
Area Loan Limit	Individual exceptions are allowed.	No individual exceptions.
Property Standards	The property must meet the Agency's site and dwelling standards.	The property: (1) need not be brought to Agency development standards; (2) need not have all hazards removed; <i>but</i> (3) must have all major health or safety hazards removed.
Appraisals	Appraisals may be conducted by an Agency employee or an outside contractor satisfactory to the Agency. Applicants are required to pay an appraisal fee.	Applicants are required to pay an appraisal fee if loan is greater than \$15,000.
LOAN TERMS		
Interest Rate and Loan Terms	The applicable Rural Housing (RH) Section 502 low or moderate interest rate in effect at loan approval or closing, whichever is lower. Standard term is 33 years; some applicants may qualify for a 38 year term. Borrowers may be eligible for payment subsidies that reduce the effective interest rate.	1 percent interest rate and a maximum loan term of 20 years.
Loan Amount	Total secured indebtedness must not exceed the area loan limit or the market value.	Total secured indebtedness must not exceed the area loan limit or the market value limitation. The outstanding balance on the sum of all Section 504 loans cannot exceed \$20,000.

Topic	Section 502 Loan	Section 504 Loan
LOAN APPROVAL AND CLOSING		
Loan Closing	Loans must be closed by a closing agent.	Loans of \$7,500 or less may be closed by the Loan Originator or a designee.
Security	First liens are generally required, but Agency interests may be subordinated in some circumstances.	First lien position is <i>not</i> required.
INSURANCE		
Insurance Requirements	If indebtedness is greater than \$15,000, property insurance is required.	If indebtedness is greater than \$15,000, property insurance is required.
