

USDA Rural Development Loan Requirements



Sand Springs, Ok. New Homes

Zero down payment financing

Stimulating our growth with the USDA Rural
Development Single Family Guaranteed Loans



United States Department of Agriculture



Introduction:

In 2015 the United States Department of Agriculture guaranteed the loans on 2,186 homes with an investment of \$255,185,139. Sand Springs received no such loans, but neighboring communities of Owasso, Glenpool, and Bixby received loans totaling over \$42M. Those communities have seen exponential growth over the last twenty-five years while Sand Springs has been the slowest growing community in the county.

The Problem:

So why has Sand Springs not been able to participate in the USDA RD loan program? It appears that for 25 years the fence line area of Sand Springs in Tulsa and Osage County has been considered urban and not rural by USDA definition. In 1966 the town of Sand Springs annexed a fence line around 110 square miles, from 81st West Avenue to the Keystone Dam. This was the first fence line in the state and was never meant to be the actual city limits of Sand Springs. However, when the lines were drawn for the USDA RD loan program the program used the fence line for the city limits and marked areas of open land as urban and therefore not eligible for the RD loan program.

Using the fence line as the boundary was incorrect, because the fence line encompasses open land areas such as Zink Ranch, The Keystone Ancient Forest, Lake Keystone and Discovery land - not what would be considered urban. By USDA definition it is rural land based on the "Open Country" Rule. Some have argued that since it is in the "MSA" it is urban, but all of the other cities referenced in this paper are in the "MSA" too.

Since 1980, Sand Springs has only grown by 27%. In comparison, by having access to the USDA RD program Owasso, Bixby, Glenpool, and other communities around the Tulsa area have seen phenomenal growth. Owasso has grown 203%, Bixby 153%, and Glenpool 77%. And in 2013 alone Owasso, Bixby and Glenpool had approximately 300 zero-down payment new homes funded by the USDA totaling over 42 million dollars and Sand Springs had none.

The Solution:

Two solutions are available to make Sand Springs eligible for the USDA RD Loan program. First, the fence line area that encompasses Zink Ranch, The Keystone Ancient Forest, Lake Keystone and Discovery land is rural land area and should be correctly identified as such by the USDA RD loan program. To make this correction will require leaders in the Sand Springs community to contact the USDA RD loan program administrator in Stillwater and provide the proper documentation to support their claim. This could free up hundreds of miles of rural open land for the USDA RD Loans.

Second, for the Sand Springs city limits proper to be eligible for USDA RD Loans, Sand Springs leaders must request the Oklahoma Congressional Delegation define Sand Springs as Rural and add an exception to a Federal Statute through an amendment to legislation as they did for Shawnee and Altus. This is a common practice already, and will take a little bit longer to get accomplished.

Supporting documentation for the two solutions outlined above are included in this document.

BACKGROUND:

In 1990 the Sand Springs Local Chapter of the Tulsa Home Builders Association were not looking to build “Farmers Home Administration Homes” as known from the 1970’s. They were focused on projects such as Rolling Oaks and Lakeside Park, homes much larger than the newly approved Rural Development Single Family Housing Guaranteed Loan Program would allow.

The home builders and developers in Sand Springs must have missed the meeting when the boundary for the new loan program was set. The USDA used a “LINE” that had been drawn around the Sand Springs city 25 years prior. The “LINE” is the Sand Springs Fence Line, it was the brainchild of “Erwin Phillips”, John Hess and others in 1966 to protect Sand Springs from the “Bad Guys” Tulsa.

In 1966 the town of Sand Springs unexpectedly annexed a fence line around 110 square miles, from 81st West Avenue to the Keystone Dam. This was the first fence line in the state and not well received by Sand Springs’ Tulsa neighbors. Tulsa Mayor Maxwell stated that Sand Springs would no longer be allowed to use TMAPC staff in its planning activities, and that “all agreements between the two cities, including the agreement to provide Tulsa water to Sand Springs on an emergency basis, would be carefully reviewed.” Sand Springs has always had the stay out of my business attitude.

Using the fence line for the USDA program limits for the City of Sand Springs and the surrounding community incorrectly restricted access to the RD program and both the City and surrounding area have suffered accordingly. In comparison, by having access to the RD program Owasso, Bixby, Glenpool, and other communities around the Tulsa area have seen exponential growth over the last twenty years. For example, in 2013 Owasso had 172 “Zero” down payment new homes funded by the USDA totaling over 25 million dollars and Sand Springs had “0”.

USDA rural development guaranteed home loans for FY13

<i>City</i>	<i>Number of Loans</i>	<i>Loan Amounts</i>
<i>Bixby</i>	<i>36</i>	<i>\$5,588,491</i>
<i>Glenpool</i>	<i>90</i>	<i>\$11,802,674</i>
<i>Owasso</i>	<i>172</i>	<i>\$25,488,763</i>
<i>Totals</i>	<i>298</i>	<i>\$42,879,928</i>

Source: U.S. Department of Agriculture

Here we are 25 years later wondering what has happened, we look at all of our neighboring communities and we see progress, new homes, new commercial activity and we see a constant decline in the growth of our city. We have compared the growth rates and building permit rates for Sand Springs and our surrounding communities and it is obvious that the lack of the USDA funding has caused our first and second time home buyers to “seek greener pastures” and go where you can get Zero down. This has caused our growth and building rates to be a fraction of our neighbors.

But all is not lost, remember the line referred to a few paragraphs before, that line someone 25 years ago thought that was the city limits of Sand Springs and therefore Urban and not eligible for the RD Loans. That was incorrect, that line was only a fence line and encompasses Zink Ranch, The Keystone Ancient Forest, Lake Keystone and Discovery land, not what you would consider as urban. This area I believe can be reviewed and possibly removed from the ineligible area with proper documentation. This could free up hundreds of miles of land for USDA RD Loans.

For the city limits proper of Sand Springs to be eligible for USDA RD Loans an amendment will need to be attached to a Federal Bill as Altus and Shawnee did. We will have to work with our House and Senate members to get Sand Springs similar consideration.



A couple looking toward Downtown Tulsa (8.5 miles) the Sand Springs fence line referenced in this paper is 1 mile ahead.

The property in the photo is considered urban and not RURAL by the current maps from the USDA and is not eligible for Rural Development Single Family Loan Program Benefits.

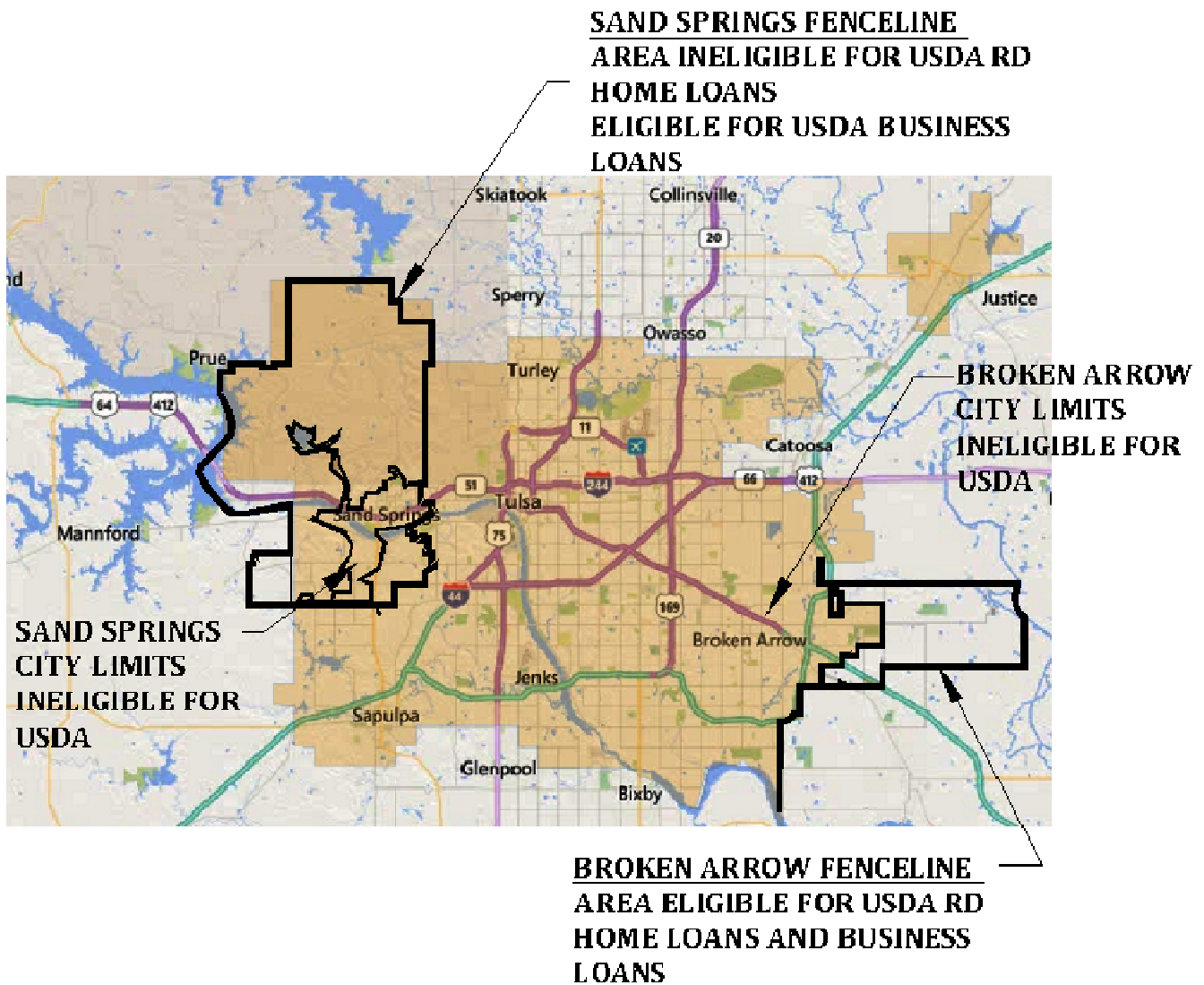
All of our Tulsa and Osage County communities and their fence lines are located in the “MSA” Metropolitan Statistical Area” yet the USDA only excluded the area encompassed by the Sand Springs Fence line from access to USDA RD Funding.

A comparison of the communities --“MSA” Area, Population, City, Rural Development approval and Fenceline Rural Development approval.



CITY	Situating in the Tulsa MSA Metropolitan Statistical Area	Maximum City Size for RD loans < 35,000 pop.	City or Town Approved for RD Housing	City or Town Fenceline Approved for RD Housing
SAND SPRINGS Fence line Osage Co. Fence line Tulsa Co.	Yes	19,553	No	No
				No
				No**
SKIATOOK	Yes	7,788	Yes	Yes
COLLINSVILLE	Yes	6,334	Yes	Yes
GLENPOOL	Yes	11,855	Yes	Yes
BIXBY	Yes	24,008	Yes	Yes
JENKS	Yes	19,951	No	No
OWASSO	Yes	33,773	Yes	Yes
BROKEN ARROW	Yes	104,726	No	Yes

** approved west of 177th W. Ave.

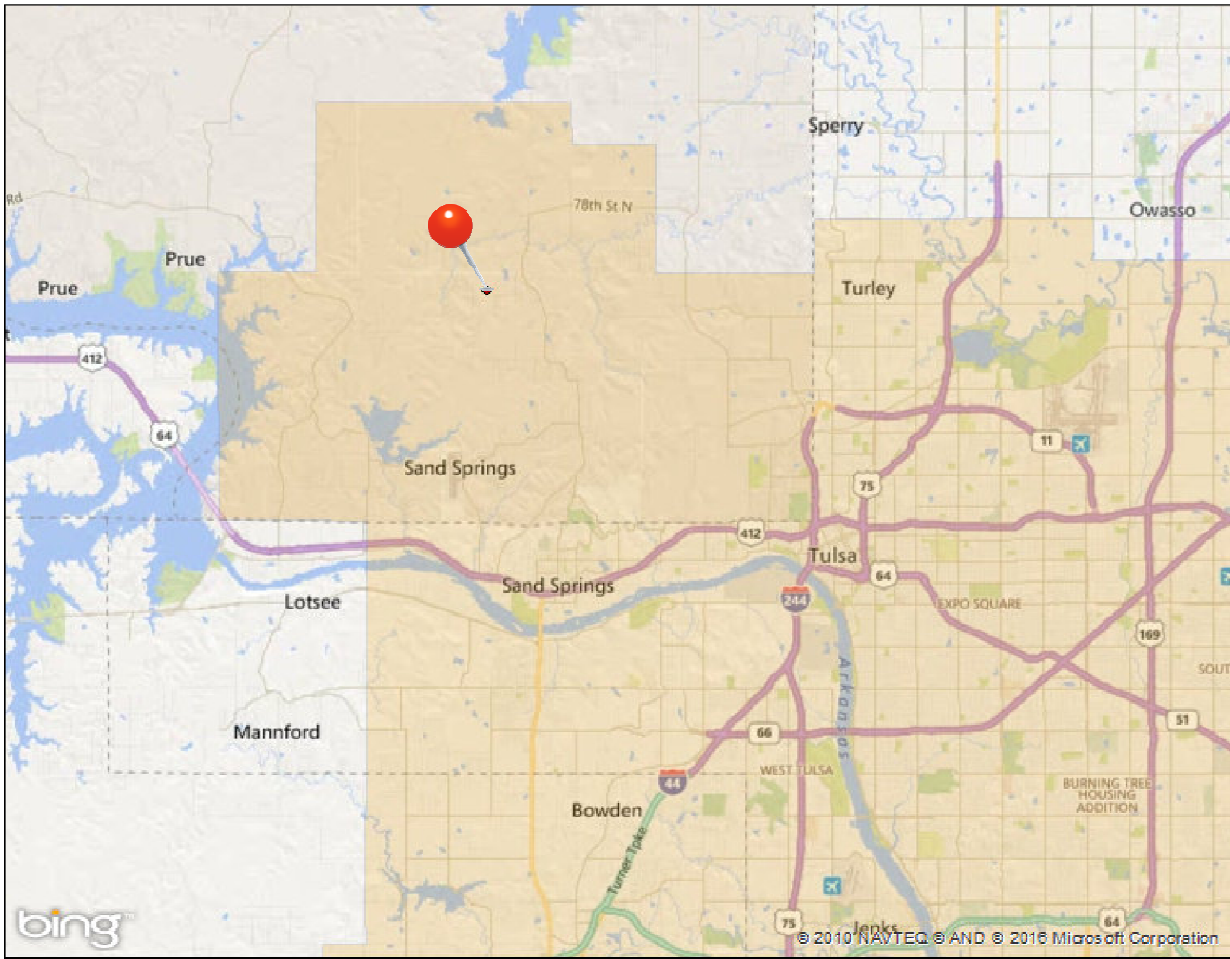
Sand Springs and Broken Arrow have not had access to USDA RD funding since 1990 due to population size. This is a scan of the eligible areas for both communities with fence lines. Broken Arrow has access to USDA RD funding inside their fence line and adjacent to their city limits where Sand Springs does not.



US Department of Agriculture, Rural Development Initial Eligibility Determination


 Matched Address	<p>User Entered Point:</p>  User Located <p>Latitude 36.23963 Longitude -96.1384</p>
<p>This address located in an eligible area.</p>	
<p>* Keep in mind that this is only an initial determination on the eligibility of your address. There are other eligibility factors for this program which cannot be confirmed through this tool.</p>	
<p>This property ineligible for properties in the US</p>	

<p>Sand Springs, Oklahoma</p>	<p>RHS SFH MFH Ineligible Area</p>
<p>Zink Ranch area</p>	



Date created: Wednesday, May 18, 2016 - 6:07:57 AM (Central Daylight Time)


US Department of Agriculture, Rural Development Initial Eligibility Determination

 **Matched Address**

This address located in an eligible area.

* Keep in mind that this is only an initial determination on the eligibility of your address. There are other eligibility factors for this program which cannot be confirmed through this tool.

User Entered Point:

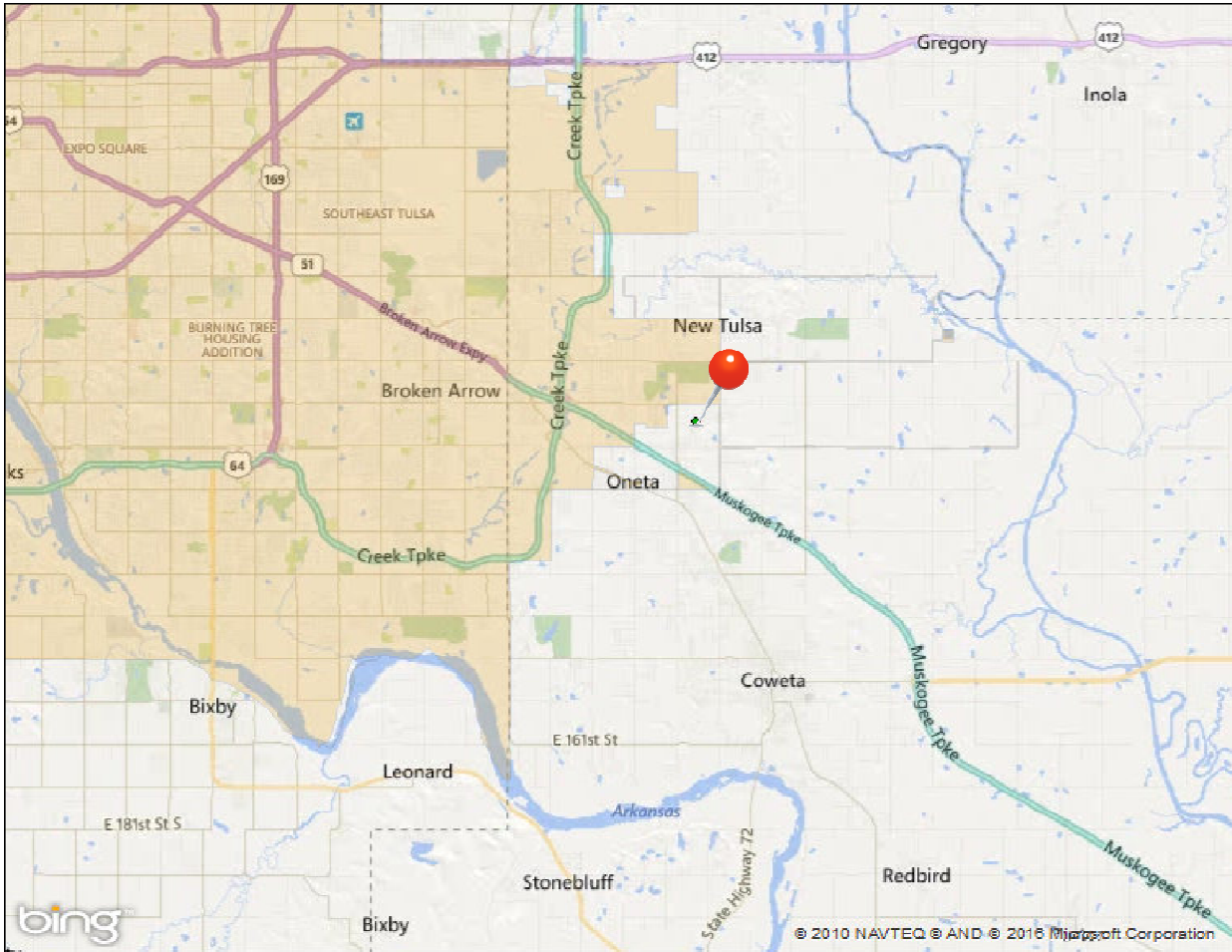
 **User Located** **Latitude** 36.04001
Longitude -95.6829

This property eligible for properties in the US

BROKEN ARROW OK

GOLF CLUB OF OKLAHOMA AREA

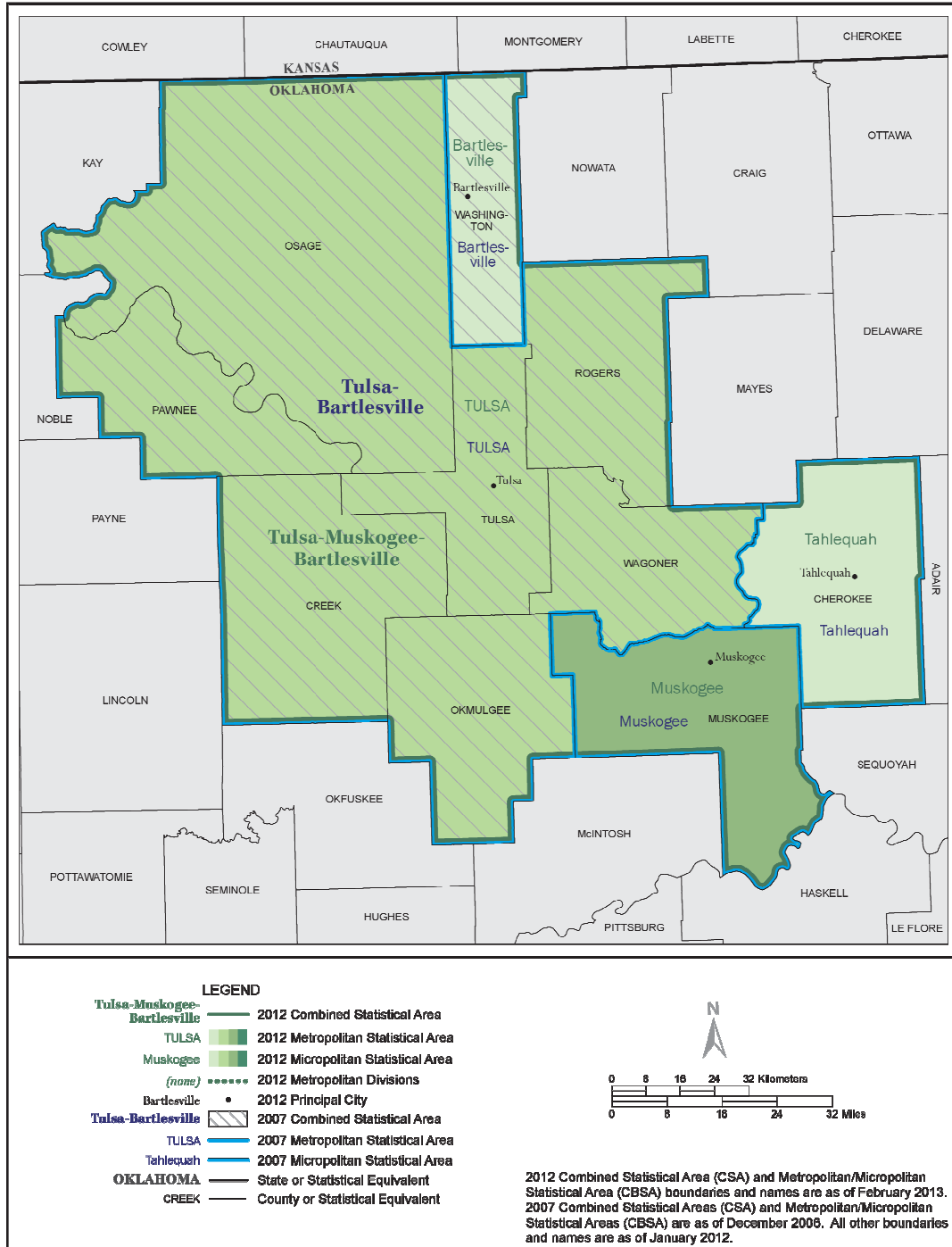
 **RHS SFH MFH Ineligible Area**



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The official Tulsa MSA map

Tulsa-Muskogee-Bartlesville, OK Combined Statistical Area



U.S. DEPARTMENT OF COMMERCE Economics and Statistics Administration U.S. Census Bureau

2012 Economic Census

What property qualifies for the program and where?

In general, rural areas are defined as:

Open country that is not part of, or associated with, an urban area.

Any town, village, city, or place, not contained within an MSA (Metropolitan Statistical Area) and has a population including the immediately adjacent densely settled area, which is not part of, or associated with, an urban area, and which: (1) Is rural in character with a population of less than 10,000; or (2) Is above 10,000 but below 20,000 and has a serious lack of mortgage credit for lower and moderate-income families

Assessing “Open Country” A site that is in “open country not part of or associated with an urban area” is one that is separated by open space from any adjacent densely populated urban area. Open space includes undeveloped land, agricultural land, or sparsely settled areas. Open space does not include physical barriers (such as rivers or canals), public parks, commercial and industrial developments, small areas reserved for recreational purposes, and open space set aside for future development.

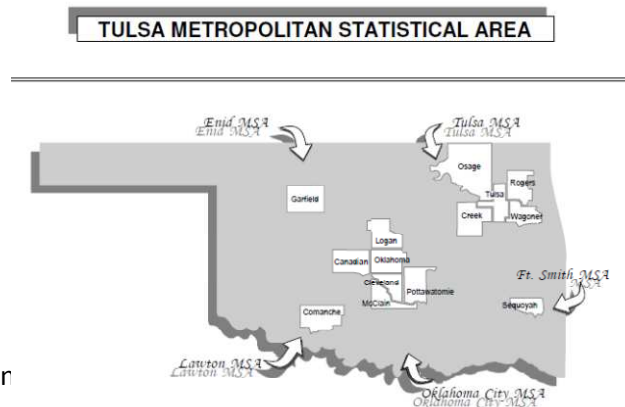
B. Special Considerations (HB-1-3550 Paragraph 5.3 Rural Area Designation)

Exception for Rural Areas Designated Prior to October 1990

If an area was classified as rural prior to October 1, 1990, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 35,000, (2) is rural in character, and (3) has a serious lack of mortgage credit. This designation can remain effective through receipt of census data for the year 2020.

Exception for Rural Areas Designated Between January 1, 2000 and December 31, 2010.

If an area was classified as rural or deemed eligible any time between January 1, 2000 and December 31, 2010, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 35,000, (2) is rural in character and (3) has a serious lack of mortgage credit. This designation can remain effective through receipt of census data for the year 2020.



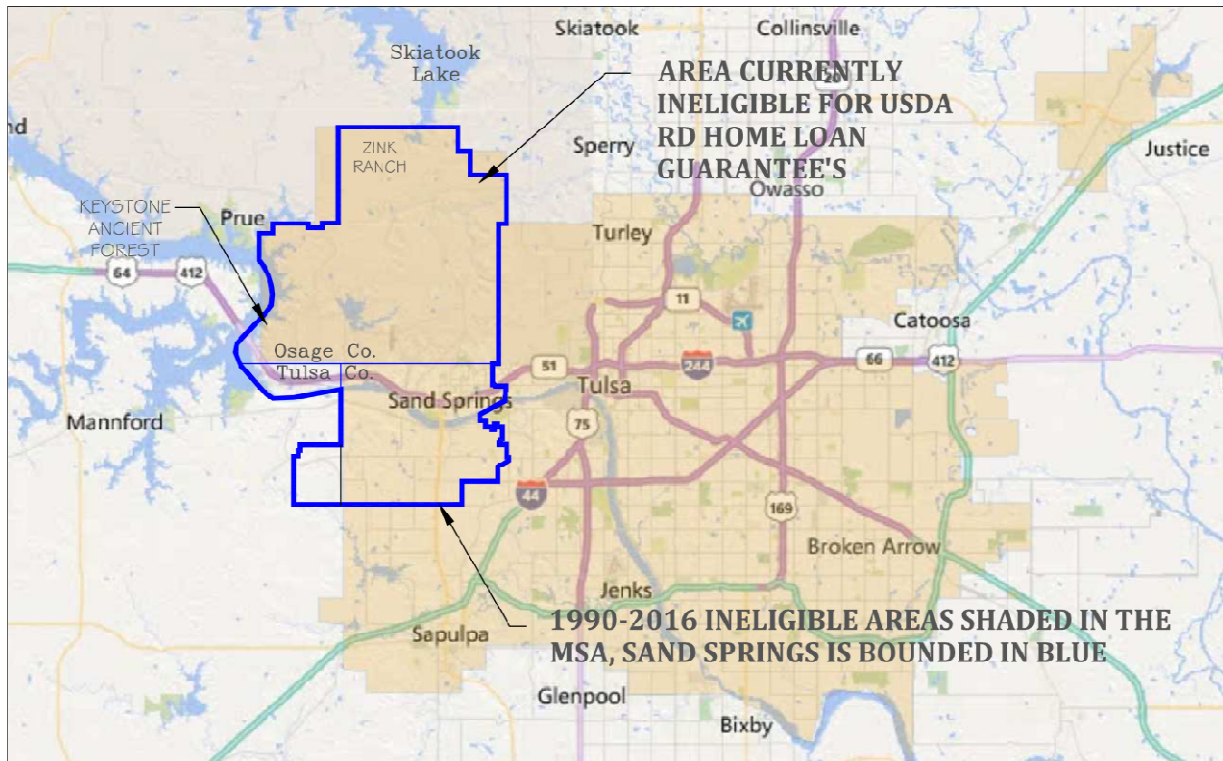
The following is an excerpt from a memorandum from Mr. Tommy Earls, Acting Program Director Single Family Housing, USDA RD in Stillwater, Ok.

The population of Sand Springs based on the 2010 Census was 18,906. The population of Sand Springs according to the 1990 Census was 15,346, which exceeded the 10,000 population threshold for areas contained within MSA, therefore, Sand Springs was not eligible for RD programs in 1990. Sand Springs has not been eligible at any time since 1990, specifically from the time period of 1/1/2000 to 12/21/2010. Therefore, Sand Springs does not qualify for either of the exemptions listed above.

These rural definitions are exceptions are statutory, in other words, language that has been established by the U.S. Congress. I have no authority to grant exceptions to these statutory definitions.

However, I might note that the U.S. Congress has written exceptions for specific municipalities into the rural definition, thus allowing USDA to lawfully make home loans in those municipalities. In the past, members of the Oklahoma Congressional Delegation have inserted exceptions for Shawnee and Altus into Federal statute.

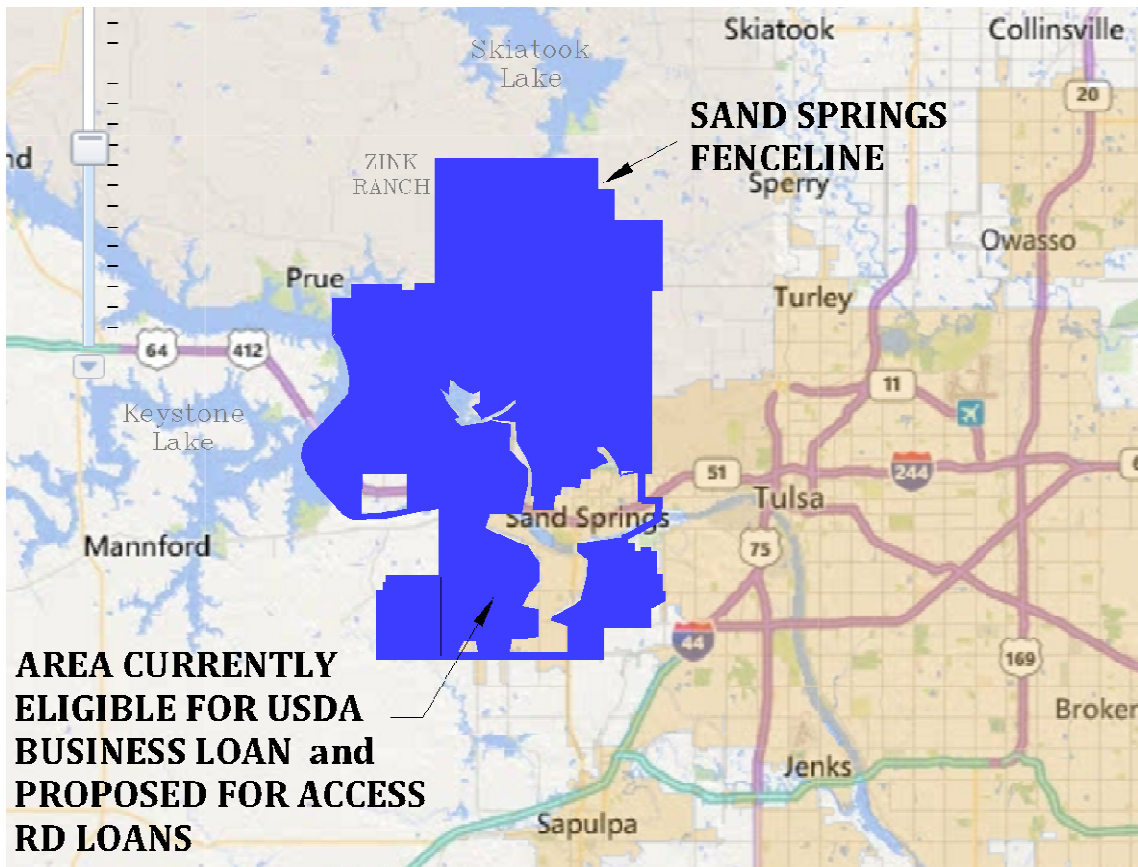
The following is a screenshot of the USDA's website showing the Tulsa Metro area that has access to the program. Shaded areas are **Not Eligible**
<http://eligibility.sc.egov.usda.gov/eligibility/>



IN-ELIGIBLE AREAS FOR THE USDA RD SINGLE AND MULTI- FAMILY LOANS

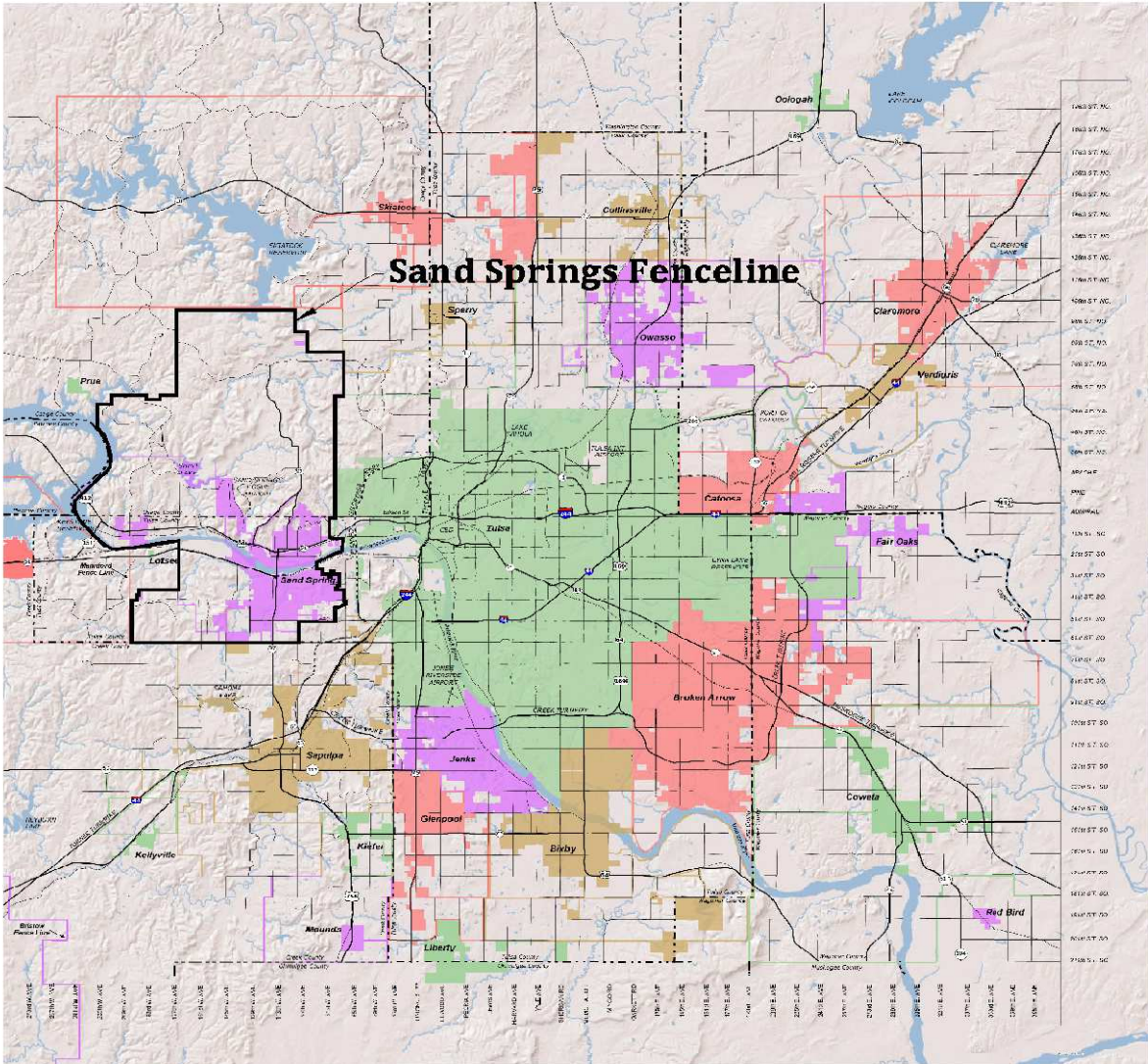
Note that Owasso, Bixby, Glenpool, Collinsville, and Skiatook city limits are all eligible for the RD funding. Broken Arrow our 100,000 population metro neighbor even gets rural funding for their fence line area as do all of the other suburbs except Sand Springs and Sapulpa. A small portion inside of Sand Springs fence line is eligible west of 177th West Avenue south of 41st street, in Tulsa County. All of the Sand Springs fence line in Osage County is ineligible, from the County Line at 73rd West Avenue, North to Skiatook lake and Zink Ranch, West to Prue and Keystone Lake, South down the Lake passing The Keystone Ancient Forest to the county line then East to Sand Springs.

THE FOLLOWING IN-ELIGIBLE AREAS “BLUE” COULD BECOME ELIGIBLE WITH A MAP REVIEW AND RURAL DETERMINATION.



The U.S. Congress would have to write an exception for the Sand Springs city limits into the rural definition, thus allowing USDA to lawfully make home loans in Sand Springs proper.

Tulsa Metro with the fenceline in black and the city limits in purple. The Fence line area is over 100 sq miles.



METROPOLITAN TULSA AREA CORPORATE LIMITS

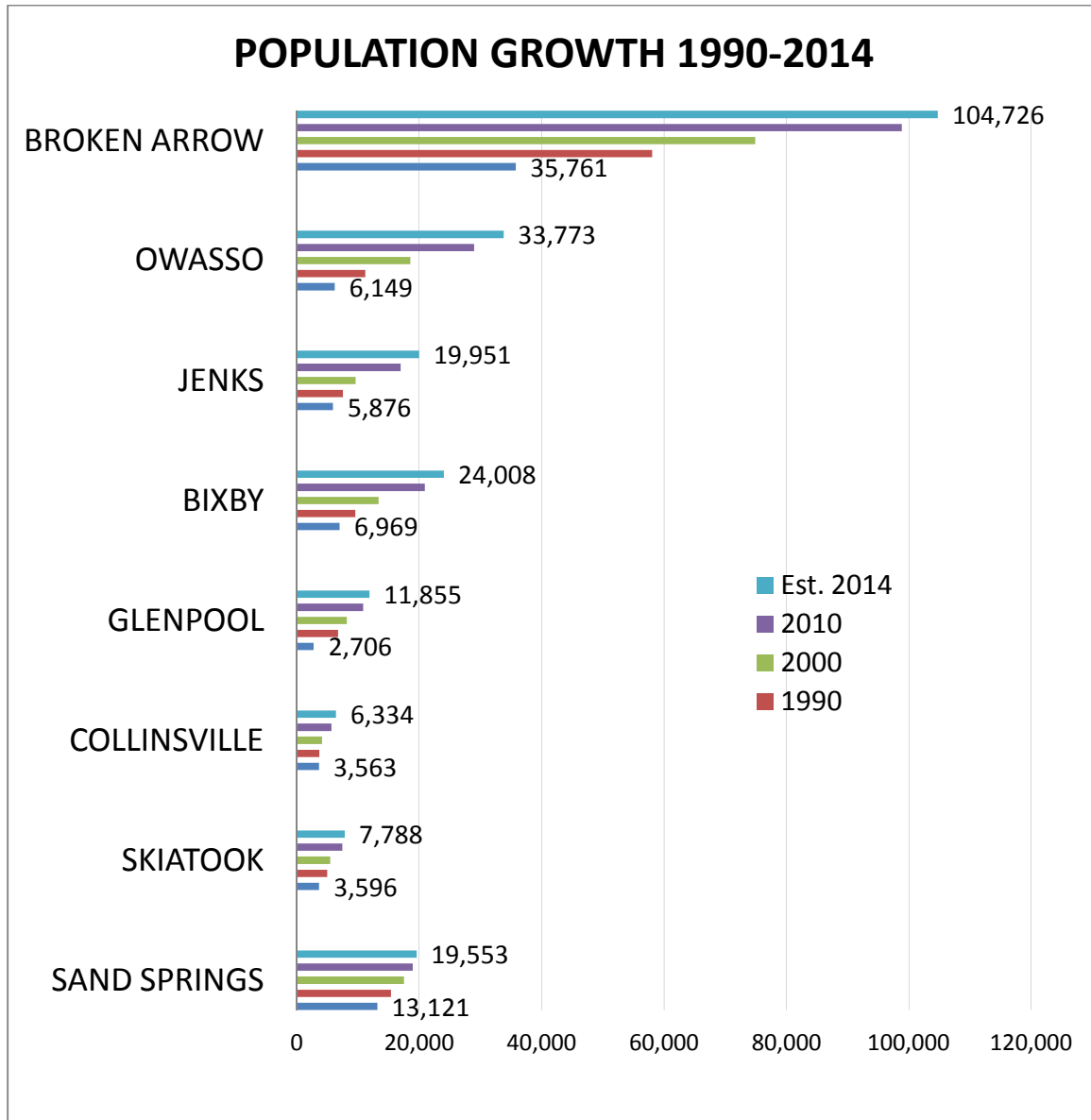
TERRITORIAL AND JURISDICTIONAL LIMITS
2014

NOTE:
THIS MAP IS UPDATED ANNUALLY AND CHANGES MAY OCCUR AFTER THE DATE OF PUBLICATION. THEREFORE,
AREAS IN QUESTION SHOULD BE VERIFIED AT THE RECORD OFFICE ON AT THE RESPECTIVE MUNICIPALITY.
THIS MAP SHOULD BE USED FOR GENERAL REFERENCE PURPOSE ONLY. SOME FEATURES HAVE BEEN
GRAPHICALLY ENHANCED FOR CLARITY PURPOSES.


 PREPARED BY INCOG
 May 2014

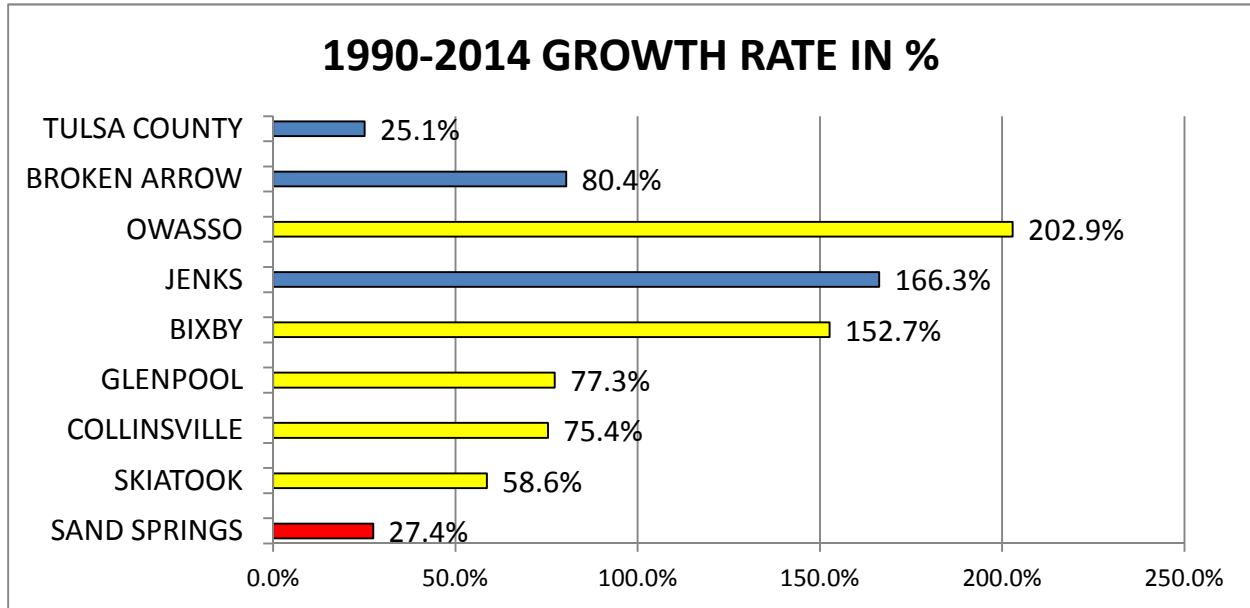
Sand Springs has not had access to USDA Rural Development funds for 25 Years. What has been the impact and how have we fared?

Population - we are the Slowest Growing Suburb in Tulsa County, Broken Arrow, **Owasso, Jenks, Bixby, Glenpool and Skiatook have more than doubled in size, with several tripling in size since 1980 and Sand Springs has increased by less than half. The Yellow highlights represent access to USDA RD Loans.**



We were the #2 Tulsa Metro Suburb in size, twice the size of Owasso, Bixby and Jenks, now we are the #5 Suburb and soon to be #6 behind Glenpool.

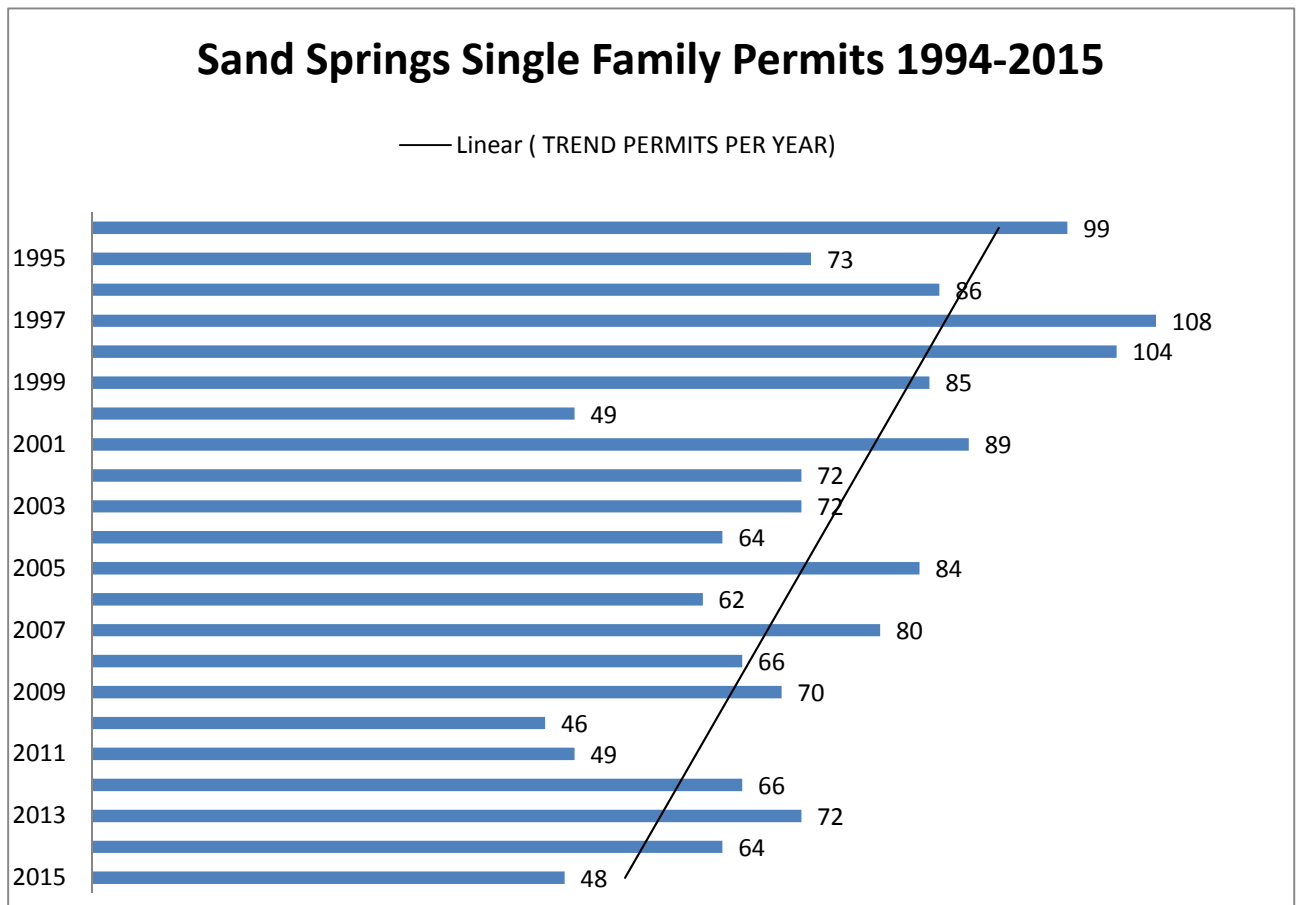
Growth - we are the Slowest Growing City in percentage



All cities in Yellow have access to USDA RD funds

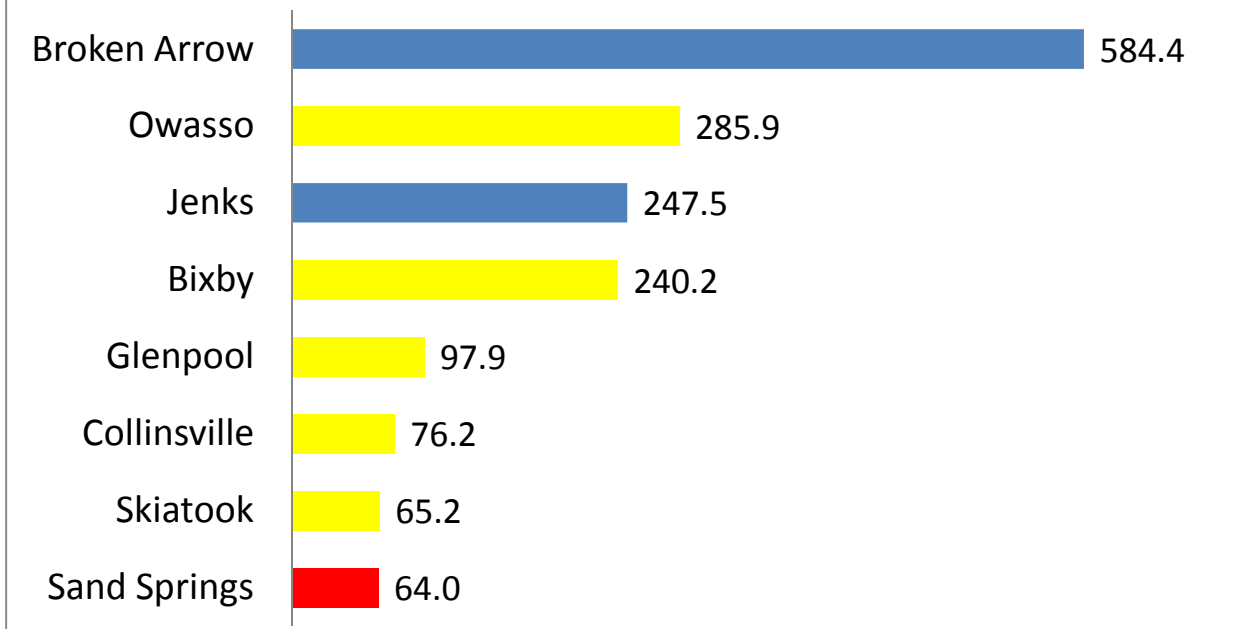
New Home Construction, how has it been impacted?

We used to build over 200 homes a year in Sand Springs, I know it's somewhat unbelievable but in the late 70's we had one year with 241 new homes. We had 48 new homes built in 2015 that's 20% of our previous high. Following is a chart of our new homes built in Sand Springs Since 1994.



Last year 2015 we had 48 new homes built.

Building Permits 2005-2014 (average per year)



This graph represents a 10 year average of permits, per year, per city. We probably cannot imagine a city our size building 286 houses a year or Glenpool averaging twice the new homes as we had last year. The cities in yellow have access to the USDA Rural Development Loans inside and outside their city limits. We average 64 homes per year and are last in new home construction.

So how do we get access to the USDA RD Loan Program so we can grow like Glenpool or Bixby (we used to say Jenks and Owasso).

For the USDA to lawfully make Rural Development home loans in Sand Springs we must request that our Oklahoma Congressional Delegation define our city as Rural and add an exception to a Federal Statute as they did with Shawnee and Altus.

It appears that for 25 years the Fence Line area of Sand Springs in Tulsa and Osage County has been considered Urban. I believe it is Rural based on the "Open Country" Rule. Some have argued that since it is in the "MSA" it is urban, but all of the other cities referenced in this paper are in the "MSA".

So let's look at some property North of Sand Springs and in the Fence Line and see if it fits the Open Country Rule.



Looking northeast toward Collinsville inside the Sand Springs ineligible area

Open country that is not part of, or associated with, an urban area.

Any town, village, city, or place, not contained within an MSA (Metropolitan Statistical Area) and has a population including the immediately adjacent densely settled area, which is not part of, or associated with, an urban area, and which: (1) Is rural in character with a population of less than 10,000; or (2) Is above 10,000 but below 20,000 and has a serious lack of mortgage credit for lower and moderate-income families

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The USDA Rural Development Loan Program

USDA Eligibility

USDA eligibility is based on a combination of household size and geography, in addition to the typical mortgage approval standards such as income and credit score verification. USDA eligibility for a 1-4 member household requires annual household income to not exceed \$74,750; and annual household for a 5-8 member household to not exceed \$98,650.

This USDA loan information is accurate as of today, May 12, 2016.

USDA Loans: Low Rates with No Down payment

USDA loans are mortgage loans which are guaranteed by the U.S. Department of Agriculture. The program is officially known as the USDA Rural Development Guaranteed Housing Loan Program, or the "Section 502 loan", named for its place in the USDA charter.

USDA loans *can* be used in rural areas, but many suburban areas remain eligible as well for the program as well.

USDA loans are popular among today's home buyers because the USDA program offers no-money-down financing.

Home buyers can finance 100% of a home's purchase price;

USDA loans are guaranteed against loss by the U.S. Department of Agriculture, they are of very little risk to banks which make them.

Low risk brings low rates and this is why USDA mortgage rates today are often the lowest of all of the government-backed mortgages.

USDA mortgage rates are typically lower than the rates for FHA loans, VA loans, and conventional mortgages via Fannie Mae and Freddie Mac.

The USDA loan program offers reduced mortgage insurance premiums (MIP) to its borrowers.

The annual USDA mortgage insurance premium -- at just four-tenths of one percent per year -- is *70% lower* than the MIP charged for a comparable FHA-backed loan.

USDA loans can be big money-savers; and they're available to first-time home buyers as well as repeat home buyers. Homeownership counseling is not required to use the USDA home loan program.

Most closings can happen in 45 days or fewer.

USDA Mortgage Insurance Requirements

The USDA mortgage is backed by the U.S. Department of Agriculture, and partially funded by the borrowers which use the program. Via mortgage insurance premiums charged to program homeowners, the government is able to keep the Rural Housing Loan program affordable.

The USDA last changed its mortgage insurance rates in October 2012. Those rates remain in effect today, May 10, 2016.

Today's USDA mortgage insurance rates are :

- 2.00% upfront fee paid at closing, based on the loan size
- 0.40% annual fee, based on the remaining principal balance

As a real-life example of how USDA mortgage insurance works, let's say that a home buyer in Cary, North Carolina is borrowing \$200,000 to buy a home with no money down.

The buyer's mortgage insurance costs will include a \$4,000 upfront mortgage insurance premium, which is added to the loan size of \$200,000; plus a monthly \$66.66 payment for mortgage insurance.

Note that the USDA upfront mortgage insurance is not required to be paid as cash. It can be added to your loan balance for you to reduce your funds required at closing.

USDA Loan Income Limits

The USDA Loan Program offers 100% financing at very low mortgage rates in rural and suburban neighborhoods.

Even better is that underwriting approvals are "relaxed". Borrowers don't need to meet every requirement to the last letter in order to get approved.

However, there is one area in which the USDA is unyielding.

The USDA will not guarantee a mortgage for a household which exceeds its maximum income limits for a given area. This is because the USDA is meant to promote homeownership among households of "modest means" only.

To be eligible for the USDA financing, then, the agency states that a household's annual earnings must not exceed the median household income for the area by more than 15 percent, with an allowance for the size of your household.

For example, the USDA income limit for an 8-member household is higher than the USDA income limit for a 4-member household; just as the income limit for a 10-member household will be higher than the income limit for an 8-member household; and, so on.

USDA income limits have a floor, based on household size:

- 1-4 member household : \$74,750
- 5-8 member household : \$98,650

Households of more than 8 members can add eight percent for each additional member to their 1-4 member household USDA income limits.

For home buyers in search of a low- or no-money-down mortgage, the USDA home loan offers low rates, flexible guidelines, and inexpensive mortgage insurance.

Today's Rates (May 13th, 2016) 3.875% APR

How may USDA funds be used?

Funds backed by loan guarantees be used for:

- New or existing residential property to be used as a permanent residence. Closing cost and reasonable/customary expenses associated with the purchase may be included in the transaction
- A site with a new or existing dwelling
- Repairs and rehabilitation when associated with the purchase of an existing dwelling
- Refinancing of eligible loans
- Special design features or permanently installed equipment to accommodate a household member who has a physical disability
- Reasonable and customary connection fees, assessments or the pro rata installment cost for utilities such as water, sewer, electricity and gas for which the buyer is liable
- A pro rata share of real estate taxes that is due and payable on the property at the time of loan closing. Funds can be allowed for the establishment of escrow accounts for real estate taxes and/or hazard and flood insurance premiums
- Essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, heating and cooling equipment as long as the equipment is conveyed with the dwelling
- Purchasing and installing measures to promote energy efficiency (e.g. insulation, double-paned glass and solar panels)
- Installing fixed broadband service to the household as long as the equipment is conveyed with the dwelling
- Site preparation costs, including grading, foundation plantings, seeding or sod installation, trees, walks, fences and driveways

The impact of a program that would allow 0 Down payment financing cannot be underestimated in a community like Sand Springs. In the last 365 days 369 Single Family Residential sales have occurred in the 74063 zip code. Of those, 61.5% or 227 sales have been priced below \$150,000 which is right in the target zone of income qualification parameters that Rural Development loans serve.

Oklahoma Contacts

Single Family Housing

Tommy Earls, Acting Program Director

[405-742-1070](tel:405-742-1070)

Oklahoma-Direct@ok.usda.gov

Business Programs

Brian Wiles, Acting Business Program Director

[405-742-1060](tel:405-742-1060)

brian.wiles@ok.usda.gov