The Independent Field Guide

The USDA Home Buyer Playbook

How to actually buy a home with USDA financing — without wasting weekends on homes that can't work.

- Location
- Income
- Property
- Borrower

An independent guide from **USDA.properties**

Zero-down · Section 502 Guaranteed · Updated July 2026

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Four filters, an offer that closes, and the worksheets to prove you're ready.

CHAPTER 01

What USDA financing actually is

The one-sentence version

USDA Rural Development offers a mortgage program (Guaranteed and Direct) that lets qualifying buyers finance 100% of the purchase price of a home in an eligible area, with no down payment and mortgage-insurance-equivalent fees that are usually lower than FHA's.

That is the whole pitch. What the marketing skips is that "qualifying," "eligible area," and "home" each have specific meanings that will disqualify you or the house if you skip them. This book is those meanings.

Guaranteed vs Direct — the decision tree

USDA runs two distinct Section 502 home-loan programs. Guaranteed loans are originated by approved private lenders; Direct loans are made by USDA for eligible low- and very-low-income applicants.

Guaranteed (Section 502 Guaranteed). You get the loan from a private lender (a bank, credit union, or independent mortgage lender that's a USDA-approved participant). USDA doesn't lend the money — they guarantee the loan against default, which lets the lender skip the down payment. Your credit score, DTI, and income all get evaluated by the private lender using USDA's overlay.

- Best for: buyers who can meet the Guaranteed program's income, credit, repayment, occupancy, and property requirements through a participating lender. USDA does not publish one universal minimum credit score; lender overlays and underwriting results vary.
- Approved by: your lender, with USDA sign-off.
- Interest rate: private-lender market rate.
- Timing: comparable to a conventional loan.

Direct (Section 502 Direct). USDA lends the money directly. The program is aimed at low-income buyers who cannot get any private financing.

- Best for: very-low-income and low-income households.
- Approved by: USDA itself, through your state's Rural Development office.

- Interest rate: USDA-set. Effective July 1, 2026, the Section 502 Direct note rate is 5.250% for low- and very-low-income borrowers. Payment assistance may reduce the effective rate as low as 1%; 1% is not the note rate. Verify the current rate before relying on this edition.
- Timing: the Direct process and funding path differ from lender-originated Guaranteed loans. Ask the servicing USDA office for its current local sequence and timing before entering a contract.

Which one should you investigate? Guaranteed and Direct have different income definitions, administration, underwriting, pricing, and application paths. The rest of this book is written primarily for the Guaranteed program. If Direct may fit your circumstances, contact your state USDA Rural Development office before acting—the pre-qualification steps are different.

Zero down, no PMI — the honest math

USDA's cost stack is:

- **Down payment:** $0.
- **Upfront guarantee fee:** under the current cited schedule, 1.00% of the loan amount. It may be financed or paid. On a $300,000 base loan, $3,000 is an illustration before the lender completes the maximum-loan calculation.
- **Annual guarantee fee:** 0.35% of the average unpaid principal balance, split into monthly payments. On $300,000, that's about $87/month at closing, decreasing as you pay down principal.
- **Closing costs:** transaction-specific lender, settlement, appraisal, tax, insurance and prepaid charges. USDA does not publish one national percentage. Interested-party contributions may fund eligible purposes up to **6%** of sales price, cannot exceed actual eligible costs and cannot become cash to the borrower.

Compare to FHA (the closest peer):

- FHA down payment: 3.5%.
- FHA upfront mortgage insurance premium (UFMIP): 1.75%.
- FHA annual mortgage insurance premium (MIP): varies by current HUD schedule, mortgage term, loan-to-value ratio, and loan amount.
- FHA MIP duration varies by term and loan-to-value ratio. USDA's annual fee generally continues while the Guaranteed loan remains outstanding. Compare the applicable schedules and matched Loan Estimates; one stated rate does not establish the lower total cost.

On a $300,000 house comparison, USDA's monthly payment (including guarantee fees) tends to run **$50–$100 lower** than an equivalent FHA payment. That's real money over a 30-year mortgage — around $18,000 to $36,000.

The four filters everything hinges on

USDA is not one qualification. It is four separate qualifications, and you have to pass all four:

1. **Location** — the property is in a USDA-eligible area (Chapter 2).
2. **Income** — your household income does not exceed the area's moderate-income cap (Chapter 3).
3. **Property** — the property meets USDA's occupancy, property type, and condition rules (Chapter 4).
4. **Borrower** — you meet the lender's credit, DTI, employment, and reserves standards using USDA's overlay (Chapter 5).

Fail any one, the deal doesn't close. The good news is you can pre-check all four before you fall in love with a listing. The bad news is that most first-time USDA buyers try to short-cut this and lose weekends touring homes that fail Filter 1 or Filter 2.

Myths killed in one page

"**USDA is only for farms.**" Wrong. USDA financing is for owner-occupied primary residences. You cannot buy a working farm with it; you can buy a single-family house in an eligible area that happens to sit on a few acres.

"**USDA is only for low-income buyers.**" Guaranteed and Direct use different income frameworks. Guaranteed applicants' adjusted annual household income must be within the current area moderate-income limit. Direct serves eligible low- and very-low-income applicants under its current area limits. Neither should be reduced to a universal AMI multiplier.

"**You have to have bad credit.**" Wrong. USDA does not publish one universal minimum credit score for Guaranteed eligibility. GUS evaluates the complete file, and approved lenders may impose their own overlays and pricing requirements.

"**You have to live in a farmhouse two hours from a city.**" Wrong. USDA eligibility covers extensive rural territory and some communities near metro edges, but boundaries change. Chapter 2 explains why the exact address—not a broad national statistic—must control the search.

"The USDA eligibility map never changes." Wrong, and this is the one that hurts. USDA reviews the eligibility layer periodically. Some buyers rush an offer specifically because a review is coming and they suspect their target area might lose eligibility. The map moves, and buyers who assume it's static get burned.

"I need 20% down or I can't buy." Wrong, obviously, but worth stating. Zero-down with USDA is the whole point of this program. What you need is enough cash for earnest money, inspection, appraisal, and a small reserve — Chapter 6 gives specific numbers.

YOUR MOVE THIS WEEK

Do this week

Confirm two things before you turn the page:

1. **Identify the correct program.** Guaranteed and Direct have different lenders, income limits, rates, processing, and subsidy rules.
2. **Write down your household size** — everyone who lives with you, borrower or not, adult or child. You'll need this every time you check an income cap.

That is it. If those two are set, keep reading.

END OF FREE PREVIEW

You've read Chapter 1. The other nine are where it gets real.

Chapter 1 framed the program. The full playbook walks you all the way to the closing table — the four filters that decide every USDA deal, the offer structure that actually gets accepted, and the worksheets that prove you're ready before you burn a weekend touring homes that can't work.

NINE MORE CHAPTERS

- The location, income, property & borrower filters
- Building your offer-ready package
- Writing an offer that closes on USDA
- Offer-accepted → keys-in-hand, and life after close
- Three real-world case studies

FIVE APPENDICES

- Five fillable worksheets — income, address log, checklists
- Two lender & agent interview scripts
- Four ready-to-send letter templates
- Plain-English glossary
- Bookmarkable official USDA reference sheet

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