



The Housing Assistance Council (HAC)

is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender.

For more information about rural housing, visit HAC online.



www.ruralhome.org

USDA Homeownership Direct Loan Program (Section 502)

The Section 502 direct loan program offers mortgages for low-income homebuyers in rural areas. Section 502 direct is operated by the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs office (RD). There is also a separate Section 502 loan guarantee program.

Purpose

Section 502 direct loans are used primarily to help low-income households purchase homes. They can be used to build, repair, renovate, or relocate homes, or to purchase and prepare sites, including providing water and sewage facilities. They may also be used to refinance debts when necessary to avoid losing a home or when required to make necessary rehabilitation of a house affordable.

At least 40 percent of the funds appropriated each year must be used to assist families with incomes less than 50 percent of area median income (AMI).

Eligibility

Applicants must have very low or low incomes. Very low income is defined as below 50 percent of AMI; low income is between 50 and 80 percent of AMI. Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories.

The Section 502 direct and guarantee programs serve largely different populations.

In FY 2009, the average household income for direct borrowers was \$26,629 while guaranteed loan recipients earned an average of \$46,720. In addition, while slightly over 30 percent of direct loans went to non-whites and Hispanics in FY 2010, just 15 percent of guaranteed borrowers were rural minorities.



Terms

Loans are for up to 33 years (38 for those with incomes below 60 percent of AMI and who cannot afford 33-year terms). The term is 30 years for manufactured homes. There is no required down payment.

The borrower's payment for principal, interest, taxes, and insurance (PITI) is the higher of:

- 24 percent of borrower's adjusted annual income for the total PITI; or
- principal and interest (P&I) calculated at 1 percent on the Rural Development loan plus Taxes and Insurance (T&I).

Eligibility is also affected by repayment feasibility, determined using ratios of repayment (gross) income to PITI and to total family debt.

Standards

Under the Section 502 program, housing must be modest in size, design, and cost. Each USDA Rural Development State Office can choose between two ways of setting a cost limit to define modest housing in its state. A State Office can adopt the limit established by its state housing agency or a limit calculated according to USDA's regulations that takes cost and market value into account.

Houses constructed, purchased, or rehabilitated with Section 502 direct loans must meet the voluntary national model building code adopted by the state, the

CABO Model Energy Code (MEC), and RD site standards. Manufactured housing must be permanently installed and meet the HUD Manufactured Housing Construction and Safety Standards, MEC, and RD site standards.

Variations

There are several variations of the basic Section 502 direct loan program. These include mutual self help housing, condominium housing, community land trusts, manufactured housing, and the rural housing disaster loan program. A separate Section 502 guaranteed loan program provides government guarantees of loans made by banks or others.

Regulations

Regulations for all USDA RD single-family housing programs, including Section 502 direct loans, are compiled in 7 CFR part 3550. Two handbooks provide additional details about different aspects of the program from the perspective of RD staff. HB-1-3550 covers tasks undertaken by RD field offices and HB-2-3550 explains the work of the agency's centralized servicing center.

ADDITIONAL INFORMATION

For additional information on Section 502 direct and RD, contact the National Office, 1400 Independence Avenue, S.W., Washington, D.C. 20250; 202-690-1533, or your Rural Development State Office, which can be identified at http://www.rurdev.usda.gov/recd_map.html or contacted by telephone through 202-720-4323. RD regulations and handbooks are available online at <http://www.rurdev.usda.gov/RegulationsAndGuidance.html>. The regulation at 7 CFR part 3550 is included in each handbook as Appendix 1.



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