The Section 502 Mutual Self-Help Housing Loan program helps very low- and low-income households to construct their own homes. It is operated by the Rural Development Housing and Community Facilities Programs office (RD) of the U.S. Department of Agriculture (USDA). Other housing development models also use self-help methods or volunteer labor, but do not receive USDA RD funding and do not follow USDA's requirements, summarized below.

**Purpose**
The Section 502 Mutual Self-Help Housing Loan program (a variation on the regular Section 502 direct Homeownership program) is used primarily to help very low- and low-income households construct their own homes. The program is targeted to families who are unable to buy decent, safe, and sanitary housing through conventional methods.

If families cannot meet their mortgage payments during the construction phase, the funds for these payments can be included in the loans.

At least 40 percent of total Section 502 direct program funding nationwide must be used to assist very low-income households.

**Sponsors**
Nonprofit organizations and public agencies sponsor mutual self-help housing. They organize groups, provide training and construction supervision, and assist participating families to file applications for loans to finance materials and sub-contracting when applicable. Most rural self-help housing sponsors use administrative funds from RD’s Section 523 Self-Help Technical Assistance Grant Program.

**How it Works**
USDA’s mutual self-help program involves not only USDA staff, but also:

- homebuyers;
- local sponsor organizations, sometimes known as Section 523 grantees or technical assistance providers because they provide technical assistance to homebuyers; and
- regional technical assistance contractors, sometimes known as Section 523 contractors, who provide technical assistance to current and potential Section 523 grantees.

**Eligibility**
Loans must be from lending institutions that will provide sites solely for self-help housing. Applicants

Families participating in a mutual self-help project perform a substantial amount (approximately 65 percent) of the construction labor on their own and each other’s homes under qualified supervision. The savings from the reduction in labor costs allow otherwise ineligible families to own their homes.
must have very low or low incomes. Very low income is defined as below 50 percent of area median income (AMI); low income is between 50 and 80 percent of AMI. Families must be without adequate housing; however, they must be able to afford the mortgage payments including taxes and insurance. These payments are about 24 percent of an applicant's income. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories. Families with very low incomes living in substandard housing are given first priority.

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 Mutual Self-Help Housing 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.

Regulations
Regulations for all USDA RD single-family housing programs, including Section 502 self-help 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 self-help housing and RD, contact the National Office, 1400 Independence Avenue, S.W., Washington, DC 20250; 202-690-1533, or your Rural Development State Office, which can be identified at http://www.rurdev.usda.gov/reed_map.html or contacted by telephone through 202-720-4323.

RD regulations and handbooks are available online at http://rurdev.usda.gov/regs. The regulation at 7 CFR part 3550 is included in each handbook as Appendix 1.