

Fast Facts!

Section 502 Direct Loans Open Doors to Rural Homeownership

The Section 502 Direct Loan Program is one of the most critical tools to help smaller, poorer, and more remote rural communities gain access to mortgage credit. If approved by Congress, the President's FY16 Budget would freeze program levels at \$900 million, preserving a reduction of 20 percent —or \$222 million—since 2010.

What is it?

- ❖ Section 502 is the *only* federal homeownership program that is *exclusively targeted* to very low- and low-income rural families. Over 60 years, the program has helped more than 2.1 million families realize the American Dream and build their wealth by more than \$40 billion.

Section 502 Direct Loans	
FY15 Final:	\$900M
FY16 Budget Request:	\$900M
FY16 House:	\$
FY16 Senate:	\$

- By law, at least 40 percent of Section 502 funds must be used to assist families earning less than 50 percent of the area median income. Three-fourths (73 percent) of borrowers earn less than 60 percent of the Area Median Income, with an average income of \$28,275.
- With a Section 502 Direct Loan, these families can access affordable, safe mortgages with interest rates starting at just 1 percent over a 38-year term.

Why is it important?

- ❖ Section 502 is the *most cost-effective federal housing program*. On average, each loan costs \$9,000, over its entire lifetime. Other federal housing programs as much *each year*.
- ❖ Section 502 Direct Loans fill a gap in the private market by serving families that are otherwise unable to access affordable mortgage credit.
- ❖ Demand for Section 502 loans continues to outpace supply. Between 2009 and 2013, an average 12,500 loan applications – amounting to \$1.5 billion – were on program's waiting lists each year.
- ❖ The Section 502 Direct Loan program cannot be replaced by any other program, including the Section 502 Guaranteed Loan program. Unlike the Guaranteed Loan program, the Direct program:
 - Overwhelmingly serves families with lower incomes – with an average income of \$28,275, or half that of the Guaranteed Loan program (\$54,255).
 - Provides interest rate subsidies to better serve low income borrowers. This will become even more significant when interest rates return to normal levels.
- ❖ With a 10% net delinquency rate and a 5.4% foreclosure rate, Section 502 Direct Loans perform on par with FHA loans (12% delinquency/4% foreclosure), which serve higher income borrowers. Section 502 Direct far outperforms the private subprime market (20% delinquency/14.5% foreclosure).

Learn more about how the FY 2016 budget impacts rural communities.

The National Rural Housing Coalition is national member organization composed of community groups, public officials, and non-profit developers who believe that rural people have the right, regardless of income, to decent, affordable housing, clean drinking water, and basic community services.