

## Fast Facts!

### *Section 502 Direct Loans Open Doors to Rural Homeownership*

The Fiscal Year (FY) 2018 and 2019 budget proposals by the US Department of Agriculture (USDA) eliminate the Section 502 direct home ownership loan program, which is authorized under the Housing Act of 1949, as amended. Neither the House nor Senate FY 2018 Agriculture Appropriations bills (HR 3268 and 1603, respectively) go along with the budget request. Approval of the FY 19 budget will deny thousands of low and very low income families the opportunity to own their own homes. We urge Congress to provide \$1.2 billion for FY 2019 section 502 direct loans.

#### 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.
  - 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. Two-thirds borrowers have incomes less than 60 percent of AMI, with an average income less than \$29,000.
  - With a Section 502 Direct Loan, these families can access affordable, safe mortgages with interest rates starting at just 1 percent over a loan term of up to 38-years.

<u>Section 502 Funding Status</u>	
<b>FY 17 enacted:</b>	<b>\$1 billion</b>
<b>FY 18 budget:</b>	<b>\$0</b>
<b>FY 18 House:</b>	<b>\$900 million</b>
<b>FY 18 Senate:</b>	<b>\$1 billion</b>
<b>FY19 Budget:</b>	<b>\$0</b>
<b>FY19 NRHC:</b>	<b>\$1.2 billion</b>

#### Why is it important?

- ❖ Section 502 is the *most cost-effective federal housing program*. In FY 17, \$112 million in low-cost mortgages were secured for rural families through the program. USDA made 7,187 loans totaling \$1 billion. The low cost to the federal government is a function of the low interest rates but also good portfolio performance
- ❖ On average, in FY 2018 the average cost to the federal government for a direct Section 502 loan is approximately \$5000.
- ❖ Section 502 Direct Loans fill a gap in the private market by serving families that are otherwise unable to access affordable mortgage credit. The program is one of the best ways to reach smaller, poorer, and more remote rural communities with limited access to mortgage credit.
- ❖ The Section 502 Direct Loan program cannot be replaced by any other program, including the Section 502 Guaranteed Loan program. Unlike the Direct Loan program, the Guarantee program:
  - Overwhelmingly serves families higher incomes – with an average income of \$59,191, or twice that of the Direct Loan program.



- Does not provide interest rate subsidies. This will become even more significant when interest rates increase as predicted.

## **The Fahe Network In Tennessee Uses Section 502 To Help Local Families Become Homeowners**

- ❖ Jeff is a single father of four children. He’s always dreamed of owning a home large enough for his family to live comfortably in a safe neighborhood. However, Jeff’s family has faced numerous obstacles. Jeff suffered a severe back injury that has resulted in the family living on a fixed income and residing in doublewide trailer that was difficult to heat and cool. To make ends meet, Jeff was forced to move away from the family-owned property and into a low-income rental home.
- ❖ Luckily for Jeff, the home was owned and maintained by Clinch-Powell RC&D, a Fahe Member based in Rutledge, TN. Jeff developed a relationship with the staff and soon accepted a position as an Appalachia CARES / AmeriCorps member. While working there, he learned about the USDA 502 Direct program and applied through Fahe’s mortgage division, JustChoice Lending.
- ❖ Now Jeff’s family lives in Pleasant Ridge, a mixed-income community built by Clinch-Powell. “The Pleasant Ridge community is perfect,” said Jeff. “With my ties to Clinch-Powell I have managed to meet all of the residents who live here. There are other kids in the area and this will be the first time my children have a chance to be part of a community. And on top of that, it’s cheaper to own the house than rent.”

