

# SECTION 502 DIRECT HOMEOWNERSHIP LOANS

Since 1968, the Section 502 Direct Homeownership Loan program has helped more than 2 million rural families realize the American Dream and build their wealth by more than \$40 billion. It is the only federal homeownership program that is exclusively targeted to very low- and low-income rural families. By providing safe and sustainable fixed-rate mortgages—with up to 38-year terms and subsidized interest rates as low as just 1 percent—rural families are able to access decent, clean, and affordable housing.

**Serves Those With the Greatest Needs.** Section 502 Direct Loans are *exclusively targeted* to very low- and low-income families. One-third of Direct Loan families are minorities. By law, at least 40 percent of Section 502 Direct Loans must go to very low-income families, earning less than 50 percent of the area median income.

**Expands Affordable Homeownership.** Because Section 502 Direct Loans offer subsidized interest rates, the program can serve families who simply have no other option for affordable housing.

**Reaches Communities The Private Market Won't.** 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, more remote rural communities with limited access to mortgage credit.

**Unmatched By Any Other Program.** No other federal program—including the Section 502 Guaranteed Loan program—can match the profile of families served. The Section 502 Direct Loan program serves more rural minorities, families with lower incomes, and more remote communities than any other federal program.

**Cost-Effective.** In FY12, the average Section 502 Direct Loan had a *total cost* (ie. not annual cost) of less than \$7,200, making it the single, most cost-effective federal housing program; other federal assistance programs can cost nearly \$7,000 per household *per year*.



Photo: NCALL Research, Inc.

**Outperforms the Commercial Market.** Despite serving families with limited means, foreclosure rates for Section 502 Direct Loans are nearly one-third the rate in the commercial market. Similar borrowers with low and very-low incomes in the private market have a foreclosure rate of 14.45 percent, compared to only 5.34 percent for Section 502 Direct Loan borrowers.

**Continues To Be In High Demand.** Demand for Section 502 Direct Loans continues to outpace supply. Between 2009 and 2011, an average 15,000 loan applications—amounting to \$1.9 billion—were on the program's waiting lists each year.

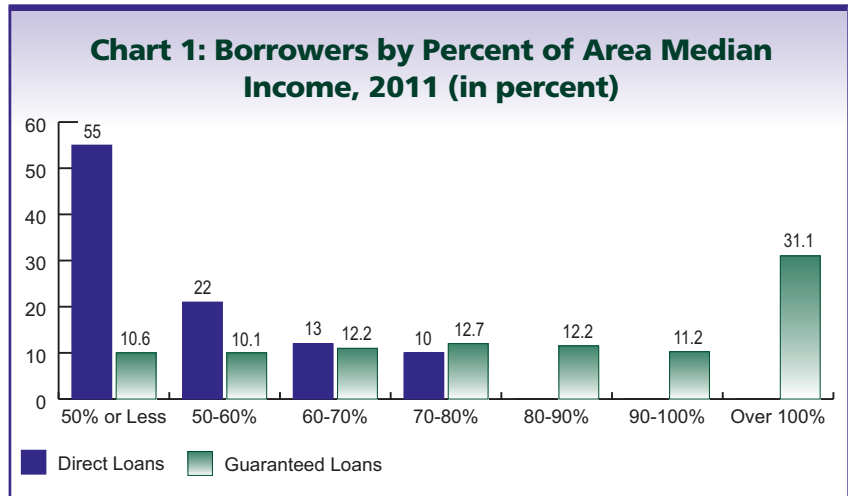
## By The Numbers

<b>2.1 million</b>	The number of families who used the program to become homeowners.
<b>\$50,201</b>	Local income generated by each home financed with a Direct Loan.
<b>103,637</b>	The number of jobs created in the past 5 years as a result of the program.
<b>\$7,200</b>	The total cost of a Direct Loan, over its entire lifetime.
<b>1%</b>	The starting subsidized interest rate for a Direct Loan.
<b>5.34</b>	The foreclosure rate for Direct Loans, compared to a 14.45 percent commercial rate for similar borrowers.
<b>\$27,000</b>	The average income of a Direct Loan borrower.
<b>30%</b>	The percent of Direct Loan borrowers that are minorities.
<b>15,000</b>	The number of families regularly on the Direct Loan waiting list.
<b>\$1.9 billion</b>	The average value of loan applications on the Section 502 Direct Loan waiting list.

**Leverages Other Rural Housing Programs.** Section 502 Direct Loans are often used in conjunction with other federal housing programs, including USDA's Section 523 Mutual Self-Help Housing program and HUD's HOME Investment Partnerships program, Community Development Block Grants, and Self-Help Homeownership Opportunity program, among others. For example, without access to Section 502 Direct Loans, most Self-Help Housing families would not be able to access the sustainable and affordable mortgages needed to become homeowners.

## An Unmatched Profile

No other federal housing program—including the Section 502 Guaranteed Loan program—can match the profile of families served by the Direct Loan program. Because it offers subsidized interest rates and long loan terms, the Section 502 Direct Loan program can successfully provide some of rural America's poorest families with access to affordable homeownership.



Two-thirds of all Direct Loan families have incomes below 60 percent of the Area Median Income. By law, at least 40 percent must have incomes that do not exceed 50 percent of AMI. The Guaranteed Loan program, however, primarily serves moderate-income families earning between 80 and 115 percent of AMI (Chart 1). The average Direct Loan family earned \$27,000 a year in 2011, while the average Guaranteed Loan borrower earned about \$50,000.

## Declining Federal Support

Despite its success, the Section 502 Direct Loan program has seen significant funding cuts over the last decade. Between FY03 and FY12, the program's Budget Authority was cut by more than 80 percent, from \$203 million to \$42.5 million. If approved by Congress, the President's FY13 Budget Request would limit the Budget Authority for Section 502 Direct Loans even further to only \$39 million—its lowest levels in more than 40 years (Chart 2). Likewise, program levels for Section 502 Direct Loans were cut by nearly \$222 million—or 20 percent—from \$1.12 billion in FY10 to \$900 million in FY12. The President's FY13 Budget Request has continued this trend by proposing to slash program levels even further to

\$653 million—42 percent decrease from FY10 (Chart 3).

