

Fast Facts!

Section 502 Direct Loans Open Doors to Rural Homeownership

The Fiscal Year (FY) 2021 budget proposed by the US Department of Agriculture (USDA) eliminate the Section 502 direct homeownership loan program, which is authorized under the Housing Act of 1949, as amended. The final FY 2020 appropriations bill HR 1863 rejected a similar proposal and provided \$1 billion for direct loans. Approval of the FY 2021 budget will deny thousands of low and very low-income families the opportunity to own their own homes. NRHC urges Congress to provide \$1.25 billion for FY 2021 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 of borrowers have incomes less than 60 percent of AMI, with an average income of 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.

Proposed Funding Levels

Section 502

FY 20 Final: \$1B

FY 21 Budget: \$0

FY 21 NRHC: \$1.25B

Why is it important?

- ❖ Section 502 is the *most cost-effective federal housing program*. In FY 19, some 7200 low-income rural families received to acquire, repair or build a home of their own. The average total cost per unit to the federal government is \$7066.
- ❖ 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 Kentucky Uses Section 502 to Help Local Families Become Homeowners

- ❖ When Laurie Davis, age 69, first approached Fahe's mortgage division, JustChoice Lending (JCL), she had been living for four years in a storage shed purchased from Lowe's. Laurie found the shed to be the most affordable option after the death of her husband and the loss of her previous home.
- ❖ The shed was placed on her parents' property so that she could live rent-free and provide medical care for her aging father. "Even though I lived next to my parents' home, there wasn't any room inside the house for me to do everyday things. The storage shed was the best option for me to have a space to sleep and still be around to help care for my father. It wasn't the best situation. I didn't have running water for washing, drinking, or going to the bathroom. I had to carry water back from their home to mine and over the years, the lifestyle wore me down."
- ❖ The death of Laurie's husband left her in a vulnerable position. While she was able to afford the shed to live in, her credit was not in the best of shape and her income is at 46% of Area Median Income. Working with Fahe's staff at JustChoice Lending, Laurie was able to repair her credit and successfully navigate the mortgage process, which allowed her to become eligible for a USDA 502 Direct home loan.
- ❖ Now, Laurie lives in a comfortable, safe home on the outskirts of Berea, KY, with running water, electricity, and proper insulation to keep her warm in the winter. She can now age in place in safety and comfort.
- ❖ "I didn't know I could have a home again after my husband's death," said Laurie. "I feel very grateful to Fahe and JCL to have a proper roof over my head again and a place for my family to come and visit me. I'm very proud of my new home and where my life has landed."

