Dear Senator:

We write regarding S. 2131, the Fiscal Year 2024 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations bill.

Increasing subsidy rates for the U.S. Department of Agriculture (USDA) Rural Development loan programs and constraints imposed on domestic discretionary programs in the Fiscal Responsibility Act (PL 118-5) have made assembling an Agriculture bill challenging the Appropriations Committee. Given these circumstances, S. 2131 recommends reasonable levels for most rural housing programs.

We are, however, very concerned about the level recommended and a related provision for Section 502 direct homeownership loans.

The Section 502 direct loan program, administered by USDA's Rural Housing Service, provides direct long-term subsidized loans, as low as 1 percent, to rural households with incomes not exceeding 80 percent of median. In many cases, Section 502 loans are used with the Mutual Self Help Housing program, which works with families who build their homes, gaining "sweat equity" through their labor. Minority households make up 40 percent of Section 502 borrowers. **Section 502 is the only federal program of its kind and the most deeply targeted homeownership mortgage product in America.**

S. 2131 recommends $850 million for Section 502, a reduction of $400 million. As a cost-saving measure, S. 2131 also recommends a fundamental change in the subsidy available to eligible households, increasing the floor on interest rates from 1 percent to 2 percent. S. 2131 provides Budget Authority (BA) totaling $62 million for Section 502. HR 4368, the House Agriculture Appropriations Bill, sets Section 502 loans at $890 million and provides $86 million in BA. The House bill retains the 1 percent interest rate.

Section 502 (d) of the Housing Act of 1949 (42 U.S. Code § 1472) requires that 40 percent of Section 502 annual appropriations, and 30 percent on a state-by-state basis, are reserved for very low-income borrowers. The 1 percent loan rate, which has been in effect since the early 1970s, is used almost exclusively by very low-income households. Without it, USDA will almost certainly be unable to meet this statutory requirement.

While the increase in housing costs has recently abated, the previous two years of rising house costs and continuing high prices for construction materials have limited affordability in rural America, especially for families with limited economic means. The House and Senate bills reduce housing opportunities in rural communities. The proposed increase in interest rates in S. 2131 will make it even more difficult for very low-income households to purchase or build their own homes.

We urge the Senate to take action to restore this essential subsidy for Section 502 and work to increase the amount available for Section 502 direct loans.

NATIONAL RURAL HOUSING COALITION

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Fact Sheet Section 502 Direct Loans Fiscal Year 2024 Appropriations

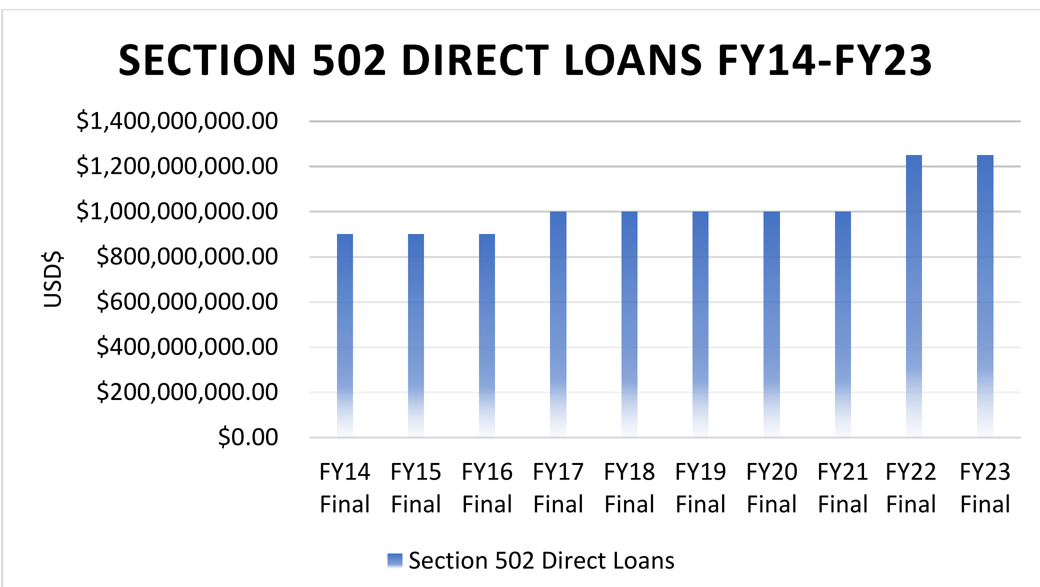
The Section 502 direct loan program administered by the Rural Housing Service of the U.S. Department of Agriculture (USDA) provides direct long-term subsidized loans, as low as one percent, to rural households with incomes not exceeding 80 percent of median. As required by law, at least 40 percent of the loan funds available go to very low-income households – with incomes not exceeding 50 percent of median. Section 502 is the only federal program of its kind and the most deeply targeted homeownership mortgage product in America.

Section 502 loans are made at a market interest rate, and subsidized at a graduated interest, depending on family income. Borrowers may obtain 100% financing, and loans are generally for 33 years (with a 38-year option for those below 60% of the area median household income), ensuring sustainable home ownership. Minority households make up 40 percent of Section 502 borrowers.

In many cases, Section 502 loans are used with the Mutual Self Help Housing program, which works with families who build their homes, gaining "sweat equity" through their labor.

In Fiscal Year 2023 (FY 23), $1.25 billion is available for Section 502 loans, which financed roughly 5000 homeownership loans. Like other federal loan programs, the low-interest rate environment of recent years has made this program extremely cost-effective. The cost per loan for FY23 is less than $8000.

Over the last ten years, the annual program level for Section 502 loans has hovered around $1 billion.



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The higher interest rate environment for FY 24 and limitations on domestic discretionary spending have made sustaining Section 502 challenging. While both House and Senate Appropriations Committees increased Budget Authority (BA) for Section 502 loan subsidies, neither bill included an amount sufficient to maintain the FY 23 level. The House Appropriations Committee provides $86 million in BA to support $880 million in loans.

The Senate recommends $62 million in BA, which provides a loan level of $850 million. S. 2131 also recommends a fundamental change in the subsidy available to eligible households, increasing the floor on interest rates from 1 percent to 2 percent. This provision reduced the BA necessary for the loan level recommended in the Senate bill.

The 1 percent loan rate has existed since the early 1970s and is almost exclusively by very low-income households. It is key to meeting the statutory requirement that 40 percent of the funds, nationally and 30 percent on a state-by-state basis, appropriated for Section 502 loans are reserved for very low-income households.

Section 502 (d) of the Housing Act of 1949, as amended:

Amendments of 1983[1]—
(1) not less than 40 percent of the funds approved in appropriation Acts for use under this section shall be set aside and made available only for very low-income families or persons; and
(2) not less than 30 percent of the funds allocated to each State under this section shall be available only for very low-income families or persons.[2]

While steep increases in housing costs and prices have recently abated, the previous two years have limited affordability in rural America, especially for families with limited economic means. The House and Senate bill cuts will reduce housing opportunities in rural communities nationwide. The proposed increase in interest rates in S. 2131 will make it even more difficult for very low income households to purchase or build their own homes.

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[1] November 30, 1983.
[2] Section 105(b)(1) of the Housing and Community Development Technical Amendments Act of 1984, Pub. L. 98–479, approved October 17, 1984, amended paragraphs (1) and (2) to read as shown. Section 105(b)(2) of such Act provides as follows:
''(2) Notwithstanding any other provision of law, the provisions of section 502(d) of the Housing Act of 1949, as amended by paragraph (1), shall apply with respect to fiscal year 1985 and thereafter, and the provisions of such section, as so amended, may not be changed or superseded except by another provision of law which amends such section.''.